

HARDIN-JEFFERSON  
INDEPENDENT SCHOOL DISTRICT

*ANNUAL FINANCIAL REPORT*

*FOR THE YEAR ENDED JUNE 30, 2018*

**By:** **West, Davis & Company, LLP**  
11824 Jollyville Road, Suite 100  
Austin, Texas 78759  
[www.westdavis.com](http://www.westdavis.com)  
Telephone: 512.340.0222  
Email: [gary@westdavis.com](mailto:gary@westdavis.com)

Hardin-Jefferson Independent School District  
Annual Financial Report  
For The Year Ended June 30, 2018

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*Introductory Section*

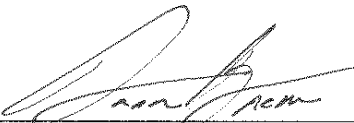
CERTIFICATE OF BOARD

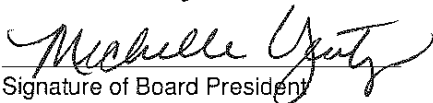
Hardin-Jefferson Independent School District  
Name of School District

Hardin  
County

100-905  
Co.-Dist. Number

We, the undersigned, certify that the attached annual financial reports of the above named school district were reviewed and (check one)  approved  disapproved for the year ended June 30, 2018, at a meeting of the board of trustees of such school district on the 15<sup>th</sup> day of October, 2018.

  
\_\_\_\_\_  
Signature of Board Secretary

  
\_\_\_\_\_  
Signature of Board President

If the board of trustees disapproved of the auditors' report, the reason(s) for disapproving it is (are):  
(attach list as necessary)

*Financial Section*

**WEST, DAVIS & COMPANY, LLP**  
11824 Jollyville Road, Suite 100  
Austin, Texas 78759

**Independent Auditors' Report**

To the Board of Trustees  
Hardin-Jefferson Independent School District  
Sour Lake, Texas

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Hardin-Jefferson Independent School District ("the District") as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditors' Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

**Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Hardin-Jefferson Independent School District as of June 30, 2018, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis of Matter**

### *Change in Accounting Principle*

As described in Note A to the financial statements, in 2018, Hardin-Jefferson Independent School District adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. Our opinion is not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, budgetary comparison information, schedule of the District's proportionate share of the net pension liability and schedule of District pension contributions identified as Required Supplementary Information in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Hardin-Jefferson Independent School District's basic financial statements. The introductory section and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not required parts of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements. The accompanying other supplementary information is presented for purposes of additional analysis and is also not a required part of the basic financial statements.

The individual nonmajor fund financial statements and other supplementary information and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the individual nonmajor fund financial statements and other supplementary information and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.



**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 10, 2018 on our consideration of Hardin-Jefferson Independent School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Hardin-Jefferson Independent School District's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "West, Davis & Company". The signature is written in a cursive, flowing style.

West, Davis & Company, LLP  
Austin, Texas  
October 10, 2018

## Hardin-Jefferson Independent School District

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

#### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

In this section of the Annual Financial and Compliance Report, we, the managers of Hardin-Jefferson Independent School District (the District), discuss and analyze the District's financial performance for the year ended June 30, 2018. Please read it in conjunction with the independent auditors' report on page 2, and the District's Basic Financial Statements, which begin on page 11. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

#### **USING THIS ANNUAL REPORT**

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Position and the Statement of Activities (on pages 11 and 12). These provide information about the activities of the District as a whole and present a longer-term view of the District's property and debt obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise. Fund financial statements (starting on page 13) report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds. For governmental activities, these statements tell how services were financed in the short term as well as what resources remain for future spending. They reflect the flow of current financial resources, and supply the basis for tax levies and the appropriations budget. For proprietary activities, fund financial statements tell how goods or services of the District were sold to departments within the District or to external customers and how the sales revenues covered the expenses of the goods or services. The remaining statements, fiduciary statements, provide financial information about activities for which the District acts solely as a trustee or agent for the benefit of those outside of the district.

The notes to the financial statements provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements.

The sections labeled TEA Required Schedules and Federal Awards Section contain data used by monitoring or regulatory agencies for assurance that the District is using funds supplied in compliance with the terms of grants.

#### **Reporting the District as a Whole**

##### ***The Statement of Net Position and the Statement of Activities***

The analysis of the District's overall financial condition and operations begins on page 11. Its primary purpose is to show whether the District is better off or worse off as a result of the year's activities. The Statement of Net Position includes all the District's assets and liabilities at the end of the year while the Statement of Activities includes all the revenues and expenses generated by the District's operations during the year. These apply the accrual basis of accounting which is the basis used by private sector companies.

All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. The District's revenues are divided into those provided by outside parties who share the costs of some programs, such as tuition received from students from outside the district and grants provided by the U.S. Department of Education to assist children with disabilities or from disadvantaged backgrounds (program revenues), and revenues provided by the taxpayers or by TEA in equalization funding processes (general revenues). All the District's assets are reported whether they serve the current year or future years. Liabilities are considered regardless of whether they must be paid in the current or future years.

These two statements report the District's Net Position and changes in them. The District's Net Position (the difference between assets and liabilities) provide one measure of the District's financial health, or financial position. Over time, increases or decreases in the District's Net Position are one indicator of whether its financial health is improving or deteriorating. To fully assess the overall health of the District, however, you should consider nonfinancial factors as well, such as changes in the District's average daily attendance or its property tax base and the condition of the District's facilities.

In the Statement of Net Position and the Statement of Activities, we classify the District's activities as Governmental activities:

- Governmental activities—Most of the District's basic services are reported here, including the instruction, counseling, co-curricular activities, food services, transportation, maintenance, community services, and general administration. Property taxes, tuition, fees, and state and federal grants finance most of these activities.

## **Reporting the District's Most Significant Funds**

### ***Fund Financial Statements***

The fund financial statements begin on page 13 and provide detailed information about the most significant funds—not the District as a whole. Laws and contracts require the District to establish some funds, such as grants received under the No Child Left Behind Act from the U.S. Department of Education. The District's administration establishes many other funds to help it control and manage money for particular purposes (like campus activities). The District's two kinds of funds—governmental and proprietary—use different accounting approaches.

- Governmental funds—Most of the District's basic services are reported in governmental funds. These use modified accrual accounting (a method that measures the receipt and disbursement of cash and all other financial assets that can be readily converted to cash) and report balances that are available for future spending. The governmental fund statements provide a detailed short-term view of the District's general operations and the basic services it provides. We describe the differences between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in reconciliation schedules following each of the fund financial statements.
- Proprietary funds—The District reports the activities for which it charges users (whether outside customers or other units of the District) in proprietary funds using the same accounting methods employed in the Statement of Net Position and the Statement of Activities. The internal service funds report activities that provide supplies and services for the District's other programs and activities—such as the District's self-insurance programs.

## The District as Trustee

### *Reporting the District's Fiduciary Responsibilities*

The District is the trustee, or fiduciary, for money raised by student activities and scholarship programs. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Position and Changes in Fiduciary Net Position on pages 20 and 21. We exclude these resources from the District's other financial statements because the District cannot use these assets to finance its operations. The District is only responsible for ensuring that the assets reported in these funds are used for their intended purposes.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Our analysis focuses on the Net Position (Table I) and Changes in Net Position (Table II) of the District's governmental and business-type activities.

Net Position of the District's governmental activities decreased by \$7.1 million – the part of Net Position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – decreased in like manner. This was a result of the implementation of GASB 75 as discussed on the following page.

**Table I**  
**Hardin-Jefferson Independent School District**

	NET POSITION	
	in thousands	
	Governmental Activities	
	2018	2017
Current and other assets	16,078	15,621
Capital assets	36,315	35,730
Total assets	<u>52,393</u>	<u>51,351</u>
Deferred outflow related to pensions	1,361	1,890
Deferred outflow related to OPEB	92	0
Total deferred outflows of resources	<u>1,453</u>	<u>1,890</u>
Long-term liabilities	46,458	41,511
Other liabilities	1,712	2,365
Total liabilities	<u>48,170</u>	<u>43,876</u>
Deferred inflow related to pensions	647	218
Deferred inflow related to OPEB	3,017	0
Total deferred inflows of resources	<u>3,664</u>	<u>218</u>
Net position:		
Invested in capital assets, net of related debt	2,334	3,198
Restricted	2,389	2,750
Unrestricted	-2,711	3,199
Total net position	<u>2,012</u>	<u>9,147</u>

**Table II**  
**Hardin-Jefferson Independent School District**

**CHANGES IN NET POSITION**  
in thousands

	Governmental Activities	
	2018	2017
Revenues:		
Program revenues:		
Charges for services	482	557
Operating grants and contributions	342	3,605
General revenues:		
Maintenance and operations taxes	8,732	7,958
Debt service taxes	2,521	2,515
State aid - formula grants	12,076	8,252
Investment Earnings	15	20
Miscellaneous	2,459	1,384
Total Revenues	<u>26,627</u>	<u>24,291</u>
Expenses:		
Instruction, curriculum and media services	7,362	11,484
Instructional and school leadership	997	1,201
Student support services	1,452	2,034
Child nutrition	741	870
Extracurricular activities	566	799
General administration	579	842
Plant maintenance, security & data processing	7,216	2,975
Debt services	1,127	1,818
Other	1,060	953
Total Expenses	<u>21,100</u>	<u>22,976</u>
Change in Net Position	<u>5,527</u>	<u>1,315</u>

Changes in expenses for the year are not comparable to prior year due to the overall effects of GASB 75 on current year expenses. As discussed in Note A.3.m, current year on-behalf activity was negative by \$3.1 million. Therefore, nearly every functional category was affected by this significant net decrease in expenses.

**NET OTHER POST-EMPLOYMENT BENEFIT PLANS (OPEB) LIABILITY (GASB 67)**

During year, the District adopted GASB Statement No. 75 for Accounting and Reporting for Other Post-Employment Benefit Plans (OPEB). With GASB 75, the District must assume their proportionate share of the Net OPEB liability of the Teacher Retirement System. The District's net OPEB liability at year end totaled \$7.2 million.

## **THE DISTRICT'S FUNDS**

As the District completed this annual period, its governmental funds (as presented in the balance sheet on page 13) reported a combined fund balance of \$12.4 million.

Over the course of the year, the Board of Trustees revised the District's budget several times. These budget amendments fall into two categories. The first category includes amendments and supplemental appropriations that were approved shortly after the beginning of the year and reflect the actual beginning balances (versus the amounts we estimated in June 2017). The second category involved amendments moving funds from programs that did not need all the resources originally appropriated to them to programs with resource needs.

## **CAPITAL ASSET AND DEBT ADMINISTRATIONS**

### **Capital Assets**

At the end of 2018, the District had \$36.3 million invested in a broad range of capital assets, including facilities and equipment for instruction, transportation, athletics, administration, and maintenance.

More detailed information about the District's capital assets is presented in Note D to the financial statements.

### **Debt**

At year-end, the District had \$35.2 million in bonds outstanding versus \$35.9 million last year. More detailed information about the District's long-term liabilities is presented in Note G to the financial statements.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The District's elected officials considered many factors when setting the fiscal year 2018-2019 budget and tax rates. Those factors include property values, changes in enrollment, the economy, and legislative mandates.

Funding for Maintenance & Operations (M&O), after isolating hurricane recovery expenses, for the 2018-2019 will be relatively stable. Enrollment has remained steady with just slight increases over the past several years. The Maintenance & Operations (M&O) tax rate stayed at \$1.04 while the Interest & Sinking (I&S) tax rate stayed at \$ 0.30 from \$ 0.33. Detailed information on hurricane effects and the recovery effort is explained below.

Hurricane Harvey (the Storm) impacted Hardin-Jefferson ISD (the District) in various ways. The District received facility damage, its staff and students dealt with personal property damage, and taxable property (primarily residential) was also damaged. The District reacted swiftly to address short-term facility needs, which gave the community the confidence it needed to rebuild and help property values recover quickly.

The District has four campuses: 2 elementary schools, a middle school and a high school. The middle school was flooded and was a complete loss. There were also a few athletic buildings damaged. The District knew that the first and most important step was to get the students a proper facility that was conducive to education. Therefore, the District built a complete middle school using modular buildings, Henderson Village. The facility was completed twelve weeks after the storm. The cost of the facility was approximately \$3.7 million and will be reimbursed by Federal Emergency Management Agency (FEMA) at approximately 90%. The District also received approximately \$2 million from property insurance.

The District is now focused on rebuilding for the long term. The District hired a consultant to ensure maximum federal reimbursement and is currently working with the consultant, design professionals and FEMA towards permanent solutions. The District anticipates the full recovery will take four to six years. The District will need to seek approval from voters on a bond referendum to replace the damaged facilities, however the community will only be responsible for the portion not covered by FEMA and insurance.

The District gained a new community, Bevil Oaks, in 2018. This community petitioned the Texas Education Agency to move to Hardin-Jefferson ISD from a neighboring district. This community will add approximately \$22 million to the District's taxable value for the 2018 tax year.

The residential market appears to be rebounding quickly. Rehabilitated homes are selling for more than they were worth prior to the Storm. The Storm has also created more turnover of homes located in established neighborhoods with aging population. Many younger families with school age students who do not qualify for over 65 homestead exemptions are buying these homes that are now on the market because of the storm. This has created a stronger housing market and ensures that lost values will rebound soon. New neighborhoods are also in the process of development. Some are already in construction, and a couple are still in the design phase. The District expects student and tax base growth from these new neighborhoods and the many recently rehabilitated homes.

#### **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's business office, at Hardin-Jefferson Independent School District, P.O. Box 2003, Sour Lake, Texas 77659.

*Basic Financial Statements*



**HARDIN-JEFFERSON INDEPENDENT SCHOOL DISTRICT**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2018**

Data Control Codes	1	Governmental Activities
<b>ASSETS:</b>		
1110	<i>Cash and Cash Equivalents</i>	\$ 8,265,520
1225	<i>Property Taxes Receivable (Net)</i>	2,066,437
1240	<i>Due from Other Governments</i>	5,554,064
1290	<i>Other Receivables (Net)</i>	7,700
1300	<i>Inventories</i>	5,657
1410	<i>Unrealized Expenses</i>	178,495
	Capital Assets:	
1510	<i>Land</i>	337,750
1520	<i>Buildings and Improvements, Net</i>	34,689,597
1530	<i>Furniture and Equipment, Net</i>	1,211,264
1550	<i>Capital Lease Assets, Net</i>	76,508
1000	Total Assets	<u>52,392,992</u>
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>		
	<i>Deferred Outflow Related to Pensions</i>	1,361,064
	<i>Deferred Outflow Related to OPEB</i>	91,896
1700	Total Deferred Outflows of Resources	<u>1,452,960</u>
<b>LIABILITIES:</b>		
2110	<i>Accounts Payable</i>	18,554
2140	<i>Interest Payable</i>	439,661
2165	<i>Accrued Liabilities</i>	1,061,992
2180	<i>Due to Other Governments</i>	173,819
2300	<i>Unearned Revenue</i>	17,815
	Noncurrent Liabilities:	
2501	<i>Due Within One Year</i>	872,010
2502	<i>Due in More Than One Year</i>	35,379,930
2540	<i>Net Pension Liability</i>	2,993,066
2545	<i>Net OPEB Liability</i>	7,213,148
2000	Total Liabilities	<u>48,169,995</u>
<b>DEFERRED INFLOWS OF RESOURCES:</b>		
	<i>Deferred Inflow Related to Pensions</i>	646,595
	<i>Deferred Inflow Related to OPEB</i>	3,017,273
2600	Total Deferred Inflows of Resources	<u>3,663,868</u>
<b>NET POSITION:</b>		
3200	Net Investment in Capital Assets	2,333,498
	Restricted For:	
3850	Debt Service	2,317,076
3870	Campus Activities	72,230
3890	Other Purposes	26
3900	Unrestricted	(2,710,741)
3000	Total Net Position	<u>\$ 2,012,089</u>

The accompanying notes are an integral part of this statement.

**HARDIN-JEFFERSON INDEPENDENT SCHOOL DISTRICT**

## STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2018

Data Control Codes	Functions/Programs	1 Expenses	3 Program Revenues		4 Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position
			Charges for Services	Governmental Activities		
	Governmental Activities:					
11	<i>Instruction</i>	\$ 7,195,589	\$ 58,194	\$ (626,511)	\$ (7,763,906)	
12	<i>Instructional Resources and Media Services</i>	136,594	--	(20,179)	(156,773)	
13	<i>Curriculum and Staff Development</i>	29,324	--	7,621	(21,703)	
21	<i>Instructional Leadership</i>	242,298	--	126,963	(115,335)	
23	<i>School Leadership</i>	754,237	--	(166,122)	(920,359)	
31	<i>Guidance, Counseling, &amp; Evaluation Services</i>	546,828	--	352,425	(194,403)	
33	<i>Health Services</i>	69,959	--	(15,121)	(85,080)	
34	<i>Student Transportation</i>	835,017	--	(124,334)	(959,351)	
35	<i>Food Service</i>	741,195	368,115	632,494	259,414	
36	<i>Cocurricular/Extracurricular Activities</i>	566,606	39,434	(78,578)	(605,750)	
41	<i>General Administration</i>	579,072	--	(90,383)	(669,455)	
51	<i>Facilities Maintenance and Operations</i>	6,962,806	16,323	(148,130)	(7,094,613)	
52	<i>Security and Monitoring Services</i>	96,857	--	--	(96,857)	
53	<i>Data Processing Services</i>	156,171	--	(25,566)	(181,737)	
72	<i>Interest on Long-term Debt</i>	1,123,267	--	--	(1,123,267)	
73	<i>Bond Issuance Costs and Fees</i>	3,650	--	--	(3,650)	
93	<i>Payments Related to Shared Services Arrangements</i>	814,364	--	516,947	(297,417)	
95	<i>Payments to Juvenile Justice Alternative Ed. Programs</i>	11,349	--	--	(11,349)	
99	<i>Other Intergovernmental Charges</i>	234,388	--	--	(234,388)	
TG	Total Governmental Activities	<u>21,099,571</u>	<u>482,066</u>	<u>341,526</u>	<u>(20,275,979)</u>	
TP	Total Primary Government	<u>\$ 21,099,571</u>	<u>\$ 482,066</u>	<u>\$ 341,526</u>	<u>(20,275,979)</u>	
	General Revenues:					
MT	<i>Property Taxes, Levied for General Purposes</i>				8,731,811	
DT	<i>Property Taxes, Levied for Debt Service</i>				2,520,609	
IE	<i>Investment Earnings</i>				14,682	
GC	<i>Grants and Contributions Not Restricted to Specific Programs</i>				12,075,501	
MI	<i>Miscellaneous</i>				2,460,688	
TR	Total General Revenues				<u>25,803,291</u>	
CN	Change in Net Position				<u>5,527,312</u>	
NB	Net Position - Beginning				9,147,027	
PA	Prior Period Adjustment				(12,662,250)	
	Net Position - Beginning, as Restated				<u>(3,515,223)</u>	
NE	Net Position - Ending				<u>\$ 2,012,089</u>	

The accompanying notes are an integral part of this statement.

**HARDIN-JEFFERSON INDEPENDENT SCHOOL DISTRICT****BALANCE SHEET - GOVERNMENTAL FUNDS**

JUNE 30, 2018

Data Control Codes	10 General Fund	50 Debt Service Fund	Other Governmental Funds	98 Total Governmental Funds	
<b>ASSETS:</b>					
1110	Cash and Cash Equivalents	\$ 3,538,832	\$ 2,581,447	\$ 1,943,570	\$ 8,063,849
1225	Taxes Receivable, Net	1,694,059	372,378	--	2,066,437
1240	Due from Other Governments	5,231,325	--	322,739	5,554,064
1260	Due from Other Funds	200,000	--	--	200,000
1290	Other Receivables	7,700	--	--	7,700
1300	Inventories	--	--	5,657	5,657
1000	Total Assets	<u>10,671,916</u>	<u>2,953,825</u>	<u>2,271,966</u>	<u>15,897,707</u>
<b>LIABILITIES:</b>					
Current Liabilities:					
2110	Accounts Payable	\$ 7,626	\$ --	\$ 700	\$ 8,326
2150	Payroll Deductions & Withholdings	(4,903)	--	--	(4,903)
2160	Accrued Wages Payable	1,066,895	--	--	1,066,895
2170	Due to Other Funds	--	--	200,000	200,000
2180	Due to Other Governments	--	--	173,819	173,819
2300	Unearned Revenue	1,694,060	372,379	17,814	2,084,253
2000	Total Liabilities	<u>2,763,678</u>	<u>372,379</u>	<u>392,333</u>	<u>3,528,390</u>
<b>FUND BALANCES:</b>					
Nonspendable Fund Balances:					
3410	Inventories	--	--	5,657	5,657
3415	Long-Term Loans/Notes Receivable	--	277,330	--	277,330
Restricted Fund Balances:					
3450	Federal/State Funds Grant Restrictions	--	--	445,619	445,619
3470	Capital Acquisitions & Contractual Obligations	--	--	(2,241,954)	(2,241,954)
3480	Retirement of Long-Term Debt	--	2,304,116	--	2,304,116
3490	Other Restrictions of Fund Balance	--	--	96,079	96,079
Committed Fund Balances:					
3520	Claims and Judgments	717,380	--	--	717,380
3540	Self-Insurance	--	--	98,548	98,548
3600	Unassigned	7,190,858	--	--	7,190,858
Unassigned, Reported in Nonmajor:					
3610	Special Revenue Funds	--	--	13,341	13,341
3620	Capital Projects Funds	--	--	3,462,343	3,462,343
3000	Total Fund Balances	<u>7,908,238</u>	<u>2,581,446</u>	<u>1,879,633</u>	<u>12,369,317</u>
4000	Total Liabilities and Fund Balances	<u>\$ 10,671,916</u>	<u>\$ 2,953,825</u>	<u>\$ 2,271,966</u>	<u>\$ 15,897,707</u>

The accompanying notes are an integral part of this statement.

**HARDIN-JEFFERSON INDEPENDENT SCHOOL DISTRICT**  
*RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET*  
*TO THE STATEMENT OF NET POSITION*  
*JUNE 30, 2018*

Total fund balances - governmental funds balance sheet \$ 12,369,317

Amounts reported for governmental activities in the Statement of Net Position  
are different because:

Capital assets used in governmental activities are not reported in the funds.	36,315,119
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.	2,066,437
The assets and liabilities of internal service funds are included in governmental activities in the SNP.	191,444
Payables for bond principal which are not due in the current period are not reported in the funds.	(35,202,009)
Payables for capital leases which are not due in the current period are not reported in the funds.	(1)
Payables for bond interest which are not due in the current period are not reported in the funds.	(439,661)
The accumulated accretion of interest on capital appreciation bonds is not reported in the funds.	(454,706)
Unrealized insurance expenses are not recorded in the funds.	178,495
Bond premiums are amortized in the SNP but not in the funds.	(1,428,181)
The accounting loss on refunding bonds is not reported in the funds.	832,957
Recognition of the District's proportionate share of the net pension liability is not reported in the funds.	(2,993,066)
Deferred Resource Inflows related to the pension plan are not reported in the funds.	(646,595)
Deferred Resource Outflows related to the pension plan are not reported in the funds.	1,361,064
Recognition of the District's proportionate share of the net OPEB liability is not reported in the funds.	(7,213,148)
Deferred Resource Inflows related to the OPEB plan are not reported in the funds.	(3,017,273)
Deferred Resource Outflows related to the OPEB plan are not reported in the funds.	91,896

Net position of governmental activities - Statement of Net Position \$ 2,012,089

The accompanying notes are an integral part of this statement.

**HARDIN-JEFFERSON INDEPENDENT SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2018**

Data Control Codes	10 General Fund	50 Debt Service Fund	Other Governmental Funds	98 Total Governmental Funds
<b>REVENUES:</b>				
5700 Local and Intermediate Sources	\$ 10,997,681	\$ 2,509,567	\$ 1,161,058	\$ 14,668,306
5800 State Program Revenues	8,924,273	74,993	173,754	9,173,020
5900 Federal Program Revenues	3,921,342	--	2,197,159	6,118,501
5020 Total Revenues	<u>23,843,296</u>	<u>2,584,560</u>	<u>3,531,971</u>	<u>29,959,827</u>
<b>EXPENDITURES:</b>				
Current:				
0011 Instruction	9,065,153	--	1,004,582	10,069,735
0012 Instructional Resources and Media Services	150,768	--	19,374	170,142
0013 Curriculum and Staff Development	26,757	--	20,017	46,774
0021 Instructional Leadership	141,171	--	152,083	293,254
0023 School Leadership	1,024,543	--	47,612	1,072,155
0031 Guidance, Counseling, & Evaluation Services	348,694	--	412,364	761,058
0033 Health Services	94,159	--	1,000	95,159
0034 Student Transportation	1,197,959	--	2,878	1,200,837
0035 Food Service	7,390	--	851,203	858,593
0036 Cocurricular/Extracurricular Activities	682,055	--	13,370	695,425
0041 General Administration	780,954	--	9,465	790,419
0051 Facilities Maintenance and Operations	2,810,525	--	27,099	2,837,624
0052 Security and Monitoring Services	88,956	--	--	88,956
0053 Data Processing Services	200,268	--	--	200,268
0071 Principal on Long-term Debt	102,475	690,508	--	792,983
0072 Interest on Long-term Debt	22,237	1,807,105	--	1,829,342
0073 Bond Issuance Costs and Fees	2,250	1,400	--	3,650
0081 Capital Outlay	3,845,099	--	2,249,699	6,094,798
0093 Payments to Shared Service Arrangements	293,459	--	520,905	814,364
0095 Payments to Juvenile Justice Alternative Education Programs	11,349	--	--	11,349
0099 Other Intergovernmental Charges	234,388	--	--	234,388
6030 Total Expenditures	<u>21,130,609</u>	<u>2,499,013</u>	<u>5,331,651</u>	<u>28,961,273</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>2,712,687</u>	<u>85,547</u>	<u>(1,799,680)</u>	<u>998,554</u>
Other Financing Sources and (Uses):				
7915 Transfers In	239,811	--	--	239,811
8911 Transfers Out	--	--	(239,811)	(239,811)
7080 Total Other Financing Sources and (Uses)	<u>239,811</u>	<u>--</u>	<u>(239,811)</u>	<u>--</u>
1200 Net Change in Fund Balances	<u>2,952,498</u>	<u>85,547</u>	<u>(2,039,491)</u>	<u>998,554</u>
0100 Fund Balances - Beginning	4,955,740	2,495,899	3,919,124	11,370,763
3000 Fund Balances - Ending	<u>\$ 7,908,238</u>	<u>\$ 2,581,446</u>	<u>\$ 1,879,633</u>	<u>\$ 12,369,317</u>

The accompanying notes are an integral part of this statement.

**HARDIN-JEFFERSON INDEPENDENT SCHOOL DISTRICT**  
*RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
 AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF ACTIVITIES  
 FOR THE YEAR ENDED JUNE 30, 2018*

Net change in fund balances - total governmental funds	\$ 998,554
Amounts reported for governmental activities in the Statement of Activities ("SOA") are different because:	
Capital outlays are not reported as expenses in the SOA.	5,152,919
The depreciation of capital assets used in governmental activities is not reported in the funds.	(1,486,867)
The gain or loss on the sale of capital assets is not reported in the funds.	(3,081,133)
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	38,424
Expenses not requiring the use of current financial resources are not reported as expenditures in the funds.	(20,070)
Repayment of bond principal is an expenditure in the funds but is not an expense in the SOA.	690,508
Repayment of capital lease principal is an expenditure in the funds but is not an expense in the SOA.	102,475
The accretion of interest on capital appreciation bonds is not reported in the funds.	659,868
(Increase) decrease in accrued interest from beginning of period to end of period.	90,797
To record State's total proportionate share of pension expense.	(497,459)
The net revenue (expense) of internal service funds is reported with governmental activities.	3,169
To increase (decrease) the State's proportionate share of pension expense.	497,459
Reverse contributions made after the prior year measurement date and before the end of the prior period.	(259,651)
Deferred Outflows for contributions made after the current measurement date & before the year end.	272,340
District contributions must be de-expended for the prior fiscal year.	306,791
The District's proportionate share of Teacher Retirement System plan wide pension expense.	187,259
The amortization of the accounting loss on refunding bonds is recorded in the SOA but not in the funds.	(44,590)
Bond premiums are reported in the funds but not in the SOA.	75,516
Current year amortization of previous year deferred resource outflows an inflows.	(970,564)
Pension contributions made after the measurement date but in current FY were de-expended & reduced NPL.	287,842
Implementing GASB 75 required certain expenditures to be de-expended and recorded as deferred resource c	(72,198)
OPEB contributions made after the measurement date but in current FY were de-expended & reduced NPL.	90,767
OPEB expense relating to GASB 75 is recorded in the SOA but not in the funds.	<u>2,505,156</u>
Change in net position of governmental activities - Statement of Activities	<u>\$ 5,527,312</u>

The accompanying notes are an integral part of this statement.

**HARDIN-JEFFERSON INDEPENDENT SCHOOL DISTRICT**

STATEMENT OF NET POSITION

INTERNAL SERVICE FUND

JUNE 30, 2018

Data Control Codes		Nonmajor Internal Service Fund
		Workers' Compensation
	<b>ASSETS:</b>	
	Current Assets:	
1110	Cash and Cash Equivalents	\$ 201,672
	Total Current Assets	<u>201,672</u>
1000	Total Assets	<u>201,672</u>
	<b>LIABILITIES:</b>	
	Current Liabilities:	
2110	Accounts Payable	\$ 10,228
	Total Current Liabilities	<u>10,228</u>
2000	Total Liabilities	<u>10,228</u>
	<b>NET POSITION:</b>	
3900	Unrestricted	191,444
3000	Total Net Position	<u>\$ 191,444</u>

The accompanying notes are an integral part of this statement.

**HARDIN-JEFFERSON INDEPENDENT SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES**  
**IN FUND NET POSITION - INTERNAL SERVICE FUND**  
**FOR THE YEAR ENDED JUNE 30, 2018**

Data Control Codes		Nonmajor Internal Service Fund
		Workers' Compensation
	<b>OPERATING REVENUES:</b>	
5700	<i>Local and Intermediate Sources</i>	\$ 572
5020	Total Revenues	<u>572</u>
	<b>OPERATING EXPENSES:</b>	
6100	<i>Payroll Costs</i>	(2,863)
6400	<i>Other Operating Costs</i>	266
6030	Total Expenses	<u>(2,597)</u>
1300	Change in Net Position	3,169
0100	Total Net Position - Beginning	188,275
3300	Total Net Position - Ending	<u>\$ 191,444</u>

The accompanying notes are an integral part of this statement.



**HARDIN-JEFFERSON INDEPENDENT SCHOOL DISTRICT**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2018**

	Internal Service Funds
<b>Cash Flows from Operating Activities:</b>	
<i>Cash Receipts (Payments) for Quasi-external</i>	
<i>Operating Transactions with Other Funds</i>	\$ --
<i>Interest and Dividends on Investments</i>	572
<i>Cash Payments to Employees for Benefits</i>	--
<i>Cash Payments to Other Suppliers for Goods and Services</i>	(266)
Net Cash Provided (Used) by Operating Activities	<u>306</u>
<b>Cash Flows from Non-capital Financing Activities:</b>	
<i>Transfers From (To) Primary Government</i>	--
Net Cash Provided (Used) by Non-capital Financing Activities	<u>--</u>
Net Increase (Decrease) in Cash and Cash Equivalents	306
Cash and Cash Equivalents at Beginning of Year	201,366
Cash and Cash Equivalents at End of Year	<u>\$ 201,672</u>
<b>Reconciliation of Operating Income to Net Cash</b>	
<b>Provided by Operating Activities:</b>	
Operating Income (Loss)	\$ 3,169
Adjustments to Reconcile Operating Income to Net Cash	
Provided by Operating Activities	
<i>Depreciation</i>	--
Change in Assets and Liabilities:	
<i>Decrease (Increase) in Receivables</i>	--
<i>Increase (Decrease) in Accounts Payable</i>	(2,863)
Total Adjustments	<u>(2,863)</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 306</u>

The accompanying notes are an integral part of this statement.

**HARDIN-JEFFERSON INDEPENDENT SCHOOL DISTRICT***STATEMENT OF FIDUCIARY NET POSITION**FIDUCIARY FUNDS**JUNE 30, 2018*

Data Control Codes	Private-purpose Trust Funds	Scholarship Fund	Agency Funds
<b>ASSETS:</b>			
1110 <i>Cash and Cash Equivalents</i>	\$ 20,171		\$ 180,767
1800 <i>Restricted Assets</i>	78,000		--
1000 <b>Total Assets</b>	98,171		180,767
<b>LIABILITIES:</b>			
Current Liabilities:			
2110 <i>Accounts Payable</i>	\$ 14,713		\$ (1,245)
2190 <i>Due to Student Groups</i>	--		179,133
2000 <b>Total Liabilities</b>	14,713		177,888
<b>NET POSITION:</b>			
3800 <i>Held in Trust</i>		83,458	--
3000 <b>Total Net Position</b>	\$ 83,458		\$ 2,879

The accompanying notes are an integral part of this statement.

**HARDIN-JEFFERSON INDEPENDENT SCHOOL DISTRICT**  
*STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS*  
*FIDUCIARY FUNDS*  
*FOR THE YEAR ENDED JUNE 30, 2018*

	Private- Purpose Trusts	Scholarship Fund
<b>Additions:</b>		
Investment Income	\$ 1,098	
Gifts and Bequests	--	
Total Additions	<u>1,098</u>	
<b>Deductions:</b>		
Scholarship Awards	--	
Total Deductions	<u>--</u>	
<b>Change in Net Assets</b>	1,098	
Net Assets-Beginning of the Year	82,360	
Net Assets-End of the Year	<u>\$ 83,458</u>	

The accompanying notes are an integral part of this statement.

**HARDIN-JEFFERSON INDEPENDENT SCHOOL DISTRICT**  
*NOTES TO THE FINANCIAL STATEMENTS*  
*FOR THE YEAR ENDED JUNE 30, 2018*

A. Summary of Significant Accounting Policies

The basic financial statements of Hardin-Jefferson Independent School District (the "District") have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") applicable to governmental units in conjunction with the Texas Education Agency's Financial Accountability System Resource Guide ("Resource Guide"). The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

1. Reporting Entity

The Board of School Trustees ("Board"), a seven-member group, has governance responsibilities over all activities related to public elementary and secondary education within the jurisdiction of the District. The Board is elected by the public and has the exclusive power and duty to govern and oversee the management of the public schools of the District. All powers and duties not specifically delegated by statute to the Texas Education Agency ("TEA") or to the State Board of Education are reserved for the Board, and the TEA may not substitute its judgment for the lawful exercise of those powers and duties by the Board. The District receives funding from local, state and federal government sources and must comply with the requirements of those funding entities. However, the District is not included in any other governmental reporting entity and there are no component units included within the District's reporting entity.

2. Basis of Presentation, Basis of Accounting

a. Basis of Presentation

Government-wide Financial Statements: The statement of net position and the statement of activities include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The District does not allocate indirect expenses in the statement of activities. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the District's funds, with separate statements presented for each fund category. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

The District reports the following major governmental funds:

General Fund: This is the District's primary operating fund. It accounts for all financial resources of the District except those required to be accounted for in another fund.

**HARDIN-JEFFERSON INDEPENDENT SCHOOL DISTRICT**  
*NOTES TO THE FINANCIAL STATEMENTS*  
*FOR THE YEAR ENDED JUNE 30, 2018*

In addition, the District reports the following fund types:

**Internal Service Funds:** These funds are used to account for revenues and expenses related to services provided to parties inside the District. These funds facilitate distribution of support costs to the users of support services on a cost-reimbursement basis. Because the principal users of the internal services are the District's governmental activities, this fund type is included in the "Governmental Activities" column of the government-wide financial statements.

**Private-Purpose Trust Funds:** These funds are used to report trust arrangements under which principal and income benefit individuals, private organizations, or other governments not reported in other fiduciary fund types.

**Agency Funds:** These funds are used to report student activity funds and other resources held in a purely custodial capacity (assets equal liabilities). Agency funds typically involve only the receipt, temporary investment, and remittance of fiduciary resources to individuals, private organizations, or other governments.

Fiduciary funds are reported in the fiduciary fund financial statements. However, because their assets are held in a trustee or agent capacity and are therefore not available to support District programs, these funds are not included in the government-wide statements.

b. **Measurement Focus, Basis of Accounting**

**Government-wide, Proprietary, and Fiduciary Fund Financial Statements:** These financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

**Governmental Fund Financial Statements:** Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

When the District incurs an expenditure or expense for which both restricted and unrestricted resources may be used, it is the District's policy to use restricted resources first, then unrestricted resources.

3. **Financial Statement Amounts**

a. **Cash and Cash Equivalents**

For purposes of the statement of cash flows, highly liquid investments are considered to be cash equivalents if they have a maturity of three months or less when purchased.

**HARDIN-JEFFERSON INDEPENDENT SCHOOL DISTRICT**  
*NOTES TO THE FINANCIAL STATEMENTS*  
*FOR THE YEAR ENDED JUNE 30, 2018*

b. Property Taxes

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available when they become due or past due and receivable within the current period.

Allowances for uncollectible tax receivables within the General and Debt Service Funds are based upon historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the District is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

c. Inventories and Prepaid Items

Inventories of supplies on the balance sheet are stated at weighted average cost, while inventories of food commodities are recorded at market values supplied by the Texas Department of Human Services. Inventory items are recorded as expenditures when they are consumed. Supplies are used for almost all functions of activity, while food commodities are used only in the food service program. Although commodities are received at no cost, their fair market value is supplied by the Texas Department of Human Services and recorded as inventory and deferred revenue when received. When requisitioned, inventory and deferred revenue are relieved, expenditures are charged, and revenue is recognized for an equal amount. Inventories also include plant maintenance and operation supplies as well as instructional supplies.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

d. Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair value at the date of the donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. A capitalization threshold of \$5,000 is used.

Capital assets are being depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Infrastructure	30
Buildings	50
Building Improvements	20
Vehicles	2-15
Office Equipment	3-15
Computer Equipment	3-15

e. Deferred Outflows and Inflows of Resources

In addition to assets, the statements of financial position (the government-wide Statement of Net Position and governmental funds balance sheet) will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position and/or fund balance that applies to one or more future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then.

**HARDIN-JEFFERSON INDEPENDENT SCHOOL DISTRICT**  
*NOTES TO THE FINANCIAL STATEMENTS*  
*FOR THE YEAR ENDED JUNE 30, 2018*

In addition to liabilities, the statements of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to one or more future periods and so will not be recognized as an inflow of resources (revenue) until that time.

f. Receivable and Payable Balances

The District believes that sufficient detail of receivable and payable balances is provided in the financial statements to avoid the obscuring of significant components by aggregation. Therefore, no disclosure is provided which disaggregates those balances.

There are no significant receivables which are not scheduled for collection within one year of year end.

g. Interfund Activity

Interfund activity results from loans, services provided, reimbursements or transfers between funds. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures or expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers In and Transfers Out are netted and presented as a single "Transfers" line on the government-wide statement of activities. Similarly, interfund receivables and payables are netted and presented as a single "Internal Balances" line of the government-wide statement of net position.

h. Use of Estimates

The preparation of financial statements in conformity with GAAP requires the use of management's estimates.

i. Data Control Codes

Data Control Codes appear in the rows and above the columns of certain financial statements. The TEA requires the display of these codes in the financial statements filed with TEA in order to ensure accuracy in building a statewide database for policy development and funding plans.

j. Fund Balances - Governmental Funds

Fund balances of the governmental funds are classified as follows:

Nonspendable Fund Balance - represents amounts that cannot be spent because they are either not spendable form (such as inventory or prepaid insurance) or legally required to remain intact (such as notes receivable or principal of a permanent fund).

Restricted Fund Balance - represents amounts that are constrained by external parties, constitutional provisions or enabling legislation.

Committed Fund Balance - represents amounts that can only be used for a specific purpose because of a formal action by the District's Board of Trustees. Committed amounts cannot be used for any other purpose unless the Board of Trustees removes those constraints by taking the same type of formal action. Committed fund balance amounts may be used for other purposes with appropriate due process by the Board of Trustees. Commitments are typically done through adoption and amendment of the budget. Committed fund balance amounts differ from restricted balances in that the constraints on their use do not come from outside parties, constitutional provisions, or enabling legislation.

**HARDIN-JEFFERSON INDEPENDENT SCHOOL DISTRICT**  
*NOTES TO THE FINANCIAL STATEMENTS*  
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Assigned Fund Balance - represents amounts which the District intends to use for a specific purpose, but that do not meet the criteria to be classified as restricted or committed. Intent may be stipulated by the Board of Trustees or by an official or body to which the Board of Trustees delegates the authority. Specific amounts that are not restricted or committed in a special revenue, capital projects, debt service or permanent fund are assigned for purposes in accordance with the nature of their fund type or the fund's primary purpose. Assignments within the general fund convey that the intended use of those amounts is for a specific purpose that is narrower than the general purposes of the District itself.

Unassigned Fund Balance - represents amounts which are unconstrained in that they may be spent for any purpose. Only the general fund reports a positive unassigned fund balance. Other governmental funds might report a negative balance in this classification because of overspending for specific purposes for which amounts had been restricted, committed or assigned.

k. Net Position Flow Assumption

Sometimes the District will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

l. Fund Balance Flow Assumptions

Sometimes the District will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

m. Negative Operating Grants and Contributions - Statement of Activities

Expense activity is required to be recorded by districts who are participants in cost-sharing pension and OPEB benefit plans with a special funding situation where non-employer contributing entities (NECE) also participate in contributions to the plans. TRS-retirement and TRS-care benefit plans are both cost-sharing plans with special funding situations. Therefore, on-behalf expense activity of the NECE must be recorded at the government-wide level of reporting on the Statement of Activities in accordance with GASB 68 and 75.

During the year under audit, the NECE expense was negative due to changes in benefits within the TRS-care plan. The accrual for the proportionate share of that expense was a negative on-behalf revenue and negative on-behalf expense. This resulted in negative revenue for operating grants and contributions on the Statement of Activities.



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Following are the effects on the Statement of Activities as a result of the negative on-behalf accruals recorded:

	Operating Grants and Contributions As Reported	Negative On-Behalf Accruals	Operating Grants and Contributions (Excluding On- Behalf Accruals)
11 - Instruction	\$ (626,511)	\$ (2,029,984)	\$ 1,403,473
12 - Instructional Resources and Media Services	(20,179)	(27,510)	7,331
13 - Curriculum and Instructional Staff Development	7,621	(139)	7,760
21 - Instructional Leadership	126,963	(34,707)	161,670
23 - School Leadership	(166,122)	(230,695)	64,573
31 - Guidance, Counseling and Evaluation Services	352,425	(81,951)	434,376
33 - Health Services	(15,121)	(21,941)	6,820
34 - Student (Pupil) Transportation	(124,334)	(169,502)	45,168
35 - Food Services	632,494	--	632,494
36 - Extracurricular Activities	(78,578)	(107,123)	28,545
41 - General Administration	(90,383)	(136,670)	46,287
51 - Facilities Maintenance and Operations	(148,130)	(226,532)	78,402
53 - Data Processing Services	(25,566)	(34,854)	9,288
93 - Payments Related to Shared Service Arrangements	516,947	--	516,947
	<u>\$ 341,526</u>	<u>\$ (3,101,608)</u>	<u>\$ 3,443,134</u>

4. Pensions

The fiduciary net position of the Teacher Retirement System of Texas (TRS) has been determined using the flow of economic resources measurement focus and full accrual basis of accounting. This includes for purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, and information about assets, liabilities and additions to/deductions from TRS' fiduciary net position. Benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

5. New Accounting Standards Adopted

In fiscal year 2018, the District adopted a new statement of financial accounting standards issued by the Governmental Accounting Standards Board (GASB):

*Statement No. 75, Accounting and Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*

The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about support for OPEB that is provided by other entities.

This Statement replaces the requirements of Statements No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, as amended, and No. 57, OPEB measurements by Agent Employers and Agent Multiple-Employer Plans, for OPEB.

The financial statements and note disclosures have been updated for the affects of the adoption of GASB Statement No. 75.

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**B. Compliance and Accountability**

1. Finance-Related Legal and Contractual Provisions

In accordance with GASB Statement No. 38, "Certain Financial Statement Note Disclosures," violations of finance-related legal and contractual provisions, if any, are reported below, along with actions taken to address such violations:

<u>Violation</u>		<u>Action Taken</u>
Actual expenditures exceeded budget.		Anticipated year end accruals will be more closely reviewed to increase their accuracy.
<u>Fund</u>	<u>Function</u>	<u>Overage</u>
General	Bond Issuance Costs	\$ 2,250
Food Service	Food Services	37,952

2. Deficit Fund Balance or Fund Net Position of Individual Funds

Following are funds having deficit fund balances or fund net position at year end, if any, along with remarks which address such deficits:

<u>Fund Name</u>	<u>Deficit Amount</u>	<u>Remarks</u>
None reported	Not applicable	Not applicable

**C. Deposits and Investments**

The District's funds are required to be deposited and invested under the terms of a depository contract. The depository bank deposits for safekeeping and trust with the District's agent bank approved pledged securities in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

1. Cash Deposits:

At June 30, 2018, the carrying amount of the District's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$7,692,719 and the bank balance was \$10,145,599. The District's cash deposits at June 30, 2018 and during the year ended June 30, 2018, were entirely covered by FDIC insurance or by pledged collateral held by the District's agent bank in the District's name.

2. Investments:

The District is required by Government Code Chapter 2256, The Public Funds Investment Act, to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, and (9) bid solicitation preferences for certificates of deposit.

The Public Funds Investment Act ("Act") requires an annual audit of investment practices. Audit procedures in this area conducted as a part of the audit of the basic financial statements disclosed that in the areas of investment practices, management reports and establishment of appropriate policies, the District adhered to the requirements of the Act. Additionally, investment practices of the District were in accordance with local policies.

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The Act determines the types of investments which are allowable for the District. These include, with certain restrictions, 1) obligations of the U.S. Treasury, U.S. agencies, and the State of Texas, 2) certificates of deposit, 3) certain municipal securities, 4) securities lending program, 5) repurchase agreements, 6) bankers acceptances, 7) mutual funds, 8) investment pools, 9) guaranteed investment contracts, and 10) commercial paper.

\* Not all assets meeting the definition of an investment are required to be reported at fair value. Including among excepted investments are certain investments held by 2a7 like external investment pools. As detailed below, the District has invested funds in specific 2a7 like external investment pools that are valued at amortized cost and not subject to the fair value hierarchy levels.

\*\* Certificates of deposits ("CD's") and time deposits at FDIC insured banks are not subject to the fair value hierarchy levels.

The District's investments at June 30, 2018 are shown below.

<u>Investment or Investment Type</u>	<u>Rating</u>	<u>Maturity</u>	<u>Fair Value Using Level</u>	<u>Fair Value</u>
TexSTAR	AAAm	26 days	*	\$ 528,461
TexPool	AAAm	27 days	*	44,330
Lone Star	AAAm	25 days	*	10
Total Investments				<u>\$ 572,801</u>

3. Analysis of Specific Deposit and Investment Risks

GASB Statement No. 40 requires a determination as to whether the District was exposed to the following specific investment risks at year end and if so, the reporting of certain related disclosures:

a. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. At year end, the District was not significantly exposed to credit risk.

b. Custodial Credit Risk

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the District's name.

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent but not in the District's name.

At year end, the District was not exposed to custodial credit risk.

c. Concentration of Credit Risk

This risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. At year end, the District was not exposed to concentration of credit risk.

d. Interest Rate Risk

This is the risk that changes in interest rates will adversely affect the fair value of an investment. At year end, the District was not exposed to interest rate risk.

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e. Foreign Currency Risk

This is the risk that exchange rates will adversely affect the fair value of an investment. At year end, the District was not exposed to foreign currency risk.

Investment Accounting Policy

The District's general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value. The term "short-term" refers to investments which have a remaining term of one year or less at time of purchase. The term "nonparticipating" means that the investment's value does not vary with market interest rate changes. Nonnegotiable certificates of deposit are examples of nonparticipating interest-earning investment contracts.

Public Funds Investment Pools

Public funds investment pools in Texas ("Pools") are established under the authority of the Interlocal Cooperation Act, Chapter 79 of the Texas Government Code, and are subject to the provisions of the Public Funds Investment Act (the "Act"), Chapter 2256 of the Texas Government Code. In addition to other provisions of the Act designed to promote liquidity and safety of principal, the Act requires Pools to: 1) have an advisory board composed of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool; 2) maintain a continuous rating of no lower than AAA or AAA-m or an equivalent rating by at least one nationally recognized rating service; and 3) maintain the market value of its underlying investment portfolio within one half of one percent of the value of its shares.

The District's investments in Pools are reported at an amount determined by the fair value per share of the pool's underlying portfolio, unless the pool is 2a7-like, in which case they are reported at share value. A 2a7-like pool is one which is not registered with the Securities and Exchange Commission ("SEC") as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940.

TexSTAR

The District invests in the Texas Short Term Asset Reserve Program (TexSTAR), which has been organized in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. TexSTAR is managed by a five-member board of directors (Board). In accordance with the Public Funds Investment Act, TexSTAR maintains an advisory board composed of participants in TexSTAR and other persons who do not have a business relationship with TexSTAR. Advisory board members are appointed and serve at the will of the Board of Directors. J. P. Morgan Investment Management, Inc. (JPMIM) and First Southwest Company (FSC) serve as co-administrators for TexSTAR under an agreement with the Board. JPMIM provides investment management services, and FSC provides participant services and marketing. Custodial, fund accounting and depository services are provided by JPMorgan Chase Bank, N.A. and/or its subsidiary J.P. Morgan Investor Services Co. Transfer agency services are provided by Boston Financial Data Services, Inc. The business affairs of TexSTAR are managed by the Board in accordance with its bylaws. The bylaws set forth procedures governing the selection of, and action taken by, the Board. Board oversight of TexSTAR is maintained through various reporting requirements. TexSTAR is rated AAAM by Standard and Poor's and is not operated in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. All investments are stated at amortized cost, which generally approximates the market value of the securities. The stated objective of TexSTAR is to maintain a stable \$1.00 per unit net asset value; however, the \$1.00 net asset value is not guaranteed or insured.

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Lone Star

The Lone Star Investment Pool (Lone Star) is a public funds investment pool created pursuant to the Interlocal Cooperation Act, Texas Government Code, Chapter 791, and the Public Funds Investment Act, Texas Government Code, Chapter 2256. Lone Star is administered by First Public, a subsidiary of the Texas Association of School Boards (TASB), with Standish and American Beacon Advisors managing the investment and reinvestment of Lone Star's assets. State Street Bank provides custody and valuation services to Lone Star. All of the board of trustees' eleven members are Lone Star participants by either being employees or elected officials of a participant. Lone Star has established an advisory board composed of both pool members and non-members. Lone Star is rated AAA by Standard and Poor's and operated in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. The District is invested in the Government Overnight Fund of Lone Star which seeks to maintain a net asset value of one dollar. Lone Star has 3 different funds: Government Overnight, Corporate Overnight and Corporate Overnight Plus. Government and Corporate Overnight maintain a net asset value of one dollar and the Corporate Overnight Plus maintains a net asset value of 50 cents.

TexPool

The District invests in the Texas Local Government Investment Pool (TexPool), which is a local government investment pool that was established in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and operates under the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. The State Comptroller of Public Accounts oversees TexPool. Federated Investors, Inc. is the administrator and investment manager of TexPool under a contract with the State Comptroller. In accordance with the Public Funds Investment Act, the State Comptroller has appointed the TexPool Investment Advisory Board to advise with respect to TexPool. The board is composed equally of participants in TexPool Portfolios and other persons who do not have a business relationship with TexPool Portfolios and are qualified to advise in respect to TexPool Portfolios. The Advisory Board members review the investment policy and management fee structure. TexPool is rated AAAm by Standard & Poor's and operates in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. All investments are stated at amortized cost, which usually approximates the market value of the securities. The stated objective of TexPool is to maintain a stable average \$1.00 per unit net asset value; however, the \$1.00 net asset value is not guaranteed or insured. The financial statements can be obtained from the Texas Trust Safekeeping Trust Company website at [www.ttstc.org](http://www.ttstc.org).

D. Capital Assets

Capital asset activity for the year ended June 30, 2018, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
<u>Governmental activities:</u>				
<i>Capital assets not being depreciated:</i>				
Land	\$ 337,750	\$ --	\$ --	\$ 337,750
Construction in progress	1,871,663	--	1,871,663	--
Total capital assets not being depreciated	<u>2,209,413</u>	<u>--</u>	<u>1,871,663</u>	<u>337,750</u>
<i>Capital assets being depreciated:</i>				
Buildings and improvements	44,676,907	4,893,569	4,949,268	44,621,208
Equipment	4,409,975	259,350	833,665	3,835,660
Capital lease assets	2,327,358	--	955,650	1,371,708
Total capital assets being depreciated	<u>51,414,240</u>	<u>5,152,919</u>	<u>6,738,583</u>	<u>49,828,576</u>
Less accumulated depreciation for:				
Buildings and improvements	(12,409,349)	(1,285,453)	(3,763,191)	(9,931,611)
Equipment	(3,233,254)	(201,414)	(810,272)	(2,624,396)
Capital lease assets	(2,250,850)	--	(955,650)	(1,295,200)
Total accumulated depreciation	<u>(17,893,453)</u>	<u>(1,486,867)</u>	<u>(5,529,113)</u>	<u>(13,851,207)</u>
Total capital assets being depreciated, net	<u>33,520,787</u>	<u>3,666,052</u>	<u>1,209,470</u>	<u>35,977,369</u>
Governmental activities capital assets, net	<u>\$ 35,730,200</u>	<u>\$ 3,666,052</u>	<u>\$ 3,081,133</u>	<u>\$ 36,315,119</u>

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Depreciation was charged to functions as follows:

Instruction	\$	808,295
Instructional Resources and Media Services		13,386
Curriculum and Staff Development		2,984
Instructional Leadership		12,852
School Leadership		90,481
Guidance, Counseling, & Evaluation Services		31,827
Health Services		8,724
Student Transportation		105,418
Food Services		704
Extracurricular Activities		64,224
General Administration		69,944
Plant Maintenance and Operations		251,586
Security and Monitoring Services		7,901
Data Processing Services		18,541
		<u>\$ 1,486,867</u>

**E. Interfund Balances and Activities**

**1. Due To and From Other Funds**

Balances due to and due from other funds at June 30, 2018, consisted of the following:

<u>Due To Fund</u>	<u>Due From Fund</u>	<u>Amount</u>	<u>Purpose</u>
General Fund	Capital Projects Fund	\$ 200,000	Temporary Advances
	Total	<u>\$ 200,000</u>	

All amounts due are scheduled to be repaid within one year.

**2. Transfers To and From Other Funds**

Transfers to and from other funds at June 30, 2018, consisted of the following:

<u>Transfers From</u>	<u>Transfers To</u>	<u>Amount</u>	<u>Reason</u>
Nonmajor Special Revenue	General fund	\$ 208,440	Provide resources for repayment of disaster recovery
Nonmajor Special Revenue	General fund	31,371	
	Total	<u>\$ 239,811</u>	Provide resources for repayment of program costs

**HARDIN-JEFFERSON INDEPENDENT SCHOOL DISTRICT**  
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F. Short-Term Debt Activity

The District accounts for short-term debts for maintenance purposes through the General Fund. Short-Term debt transactions, including Tax Anticipation Notes, are not reflected in the Statement of Revenues, Expenditures and Changes in Fund Balance. These entries are recorded in the Balance Sheet only. Expenditures for issuance costs and interest are reflected in the Statement of Revenues, Expenditures and Changes in Fund Balance. The District required these funds to meet immediate disaster recovery efforts relating to Hurricane Harvey.

Description	Beginning Balance	Issued	Redeemed	Ending Balance
Tax anticipation notes, Series 2017	\$ --	\$ 2,000,000	\$ 2,000,000	\$ --

G. Long-Term Obligations

1. Long-Term Obligation Activity

Long-term obligations include debt and other long-term liabilities. Changes in long-term obligations for the year ended June 30, 2018, are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
<u>Governmental activities:</u>					
General obligation bonds	\$ 35,892,517	\$ --	\$ 690,508	\$ 35,202,009	\$ 872,009
Capital leases*	102,476	--	102,476	--	--
Accretion on CAB's	1,114,574	49,624	709,492	454,706	--
Premium/Discount	1,503,697	--	75,516	1,428,181	--
Accounting loss on refunding	(877,547)	--	(44,590)	(832,957)	--
	37,735,717	49,624	1,533,402	36,251,939	872,009
Net pension liability*	3,774,958	(475,101)	306,791	2,993,066	--
Net OPEB liability*	12,734,448	(5,435,063)	86,237	7,213,148	--
Total governmental activities	\$ 54,245,123	\$ (5,860,540)	\$ 1,926,430	\$ 46,458,153	\$ 872,009
			Due Within One Year	\$ 872,009	
			Due in More Than One Year	45,586,144	
				\$ 46,458,153	

\* Other long-term liabilities

The funds typically used to liquidate other long-term liabilities in the past are as follows:

Liability	Activity Type	Fund
Capital leases	Governmental	General
Net Pension Liability	Governmental	General

The following table displays total principal debt outstanding by issuance as of year end.

Date of Issue	Description	Interest Rates	Original Issue	Final Maturity Date	Debt Principal	CAB Accretion
5/1/2009	Series 2009	3.5 to 4.75	\$ 9,748,831	8/15/2038	\$ 8,517,009	\$ 380,701
3/1/2015	Series 2015	3.75 to 5	9,239,998	8/15/2037	8,570,000	--
8/1/2016	Series 2016	2.0 to 3.0	9,410,000	8/15/2038	8,850,000	74,005
5/1/2017	Series 2017	3.5 to 4.75	9,390,000	8/15/2037	9,265,000	--
					\$ 35,202,009	\$ 454,706

**HARDIN-JEFFERSON INDEPENDENT SCHOOL DISTRICT**  
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2. Debt Service Requirements

Debt service requirements on long-term debt at June 30, 2018, are as follows:

Year Ending June 30,	Governmental Activities		
	Principal	Interest	Total
2019	\$ 872,009	\$ 1,626,235	\$ 2,498,244
2020	1,360,000	1,127,419	2,487,419
2021	1,415,000	1,079,969	2,494,969
2022	1,450,000	1,033,488	2,483,488
2023	1,500,000	983,981	2,483,981
2024-2028	8,290,000	4,127,604	12,417,604
2029-2033	9,190,000	2,768,975	11,958,975
2034-2038	8,945,000	1,285,906	10,230,906
2039	2,180,000	44,469	2,224,469
Totals	<u>\$ 35,202,009</u>	<u>\$ 14,078,046</u>	<u>\$ 49,280,055</u>

3. Advance Refunding of Debt

GASB Statement No. 7, "Advance Refundings Resulting in Defeasance of Debt," provides that refunded debt and assets placed in escrow for the payment of related debt service be excluded from the financial statements. As of June 30, 2018, outstanding balances of bond issues that have been refunded and defeased in-substance by placing existing assets and the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments are as follows.

Bond Issue	Amount
Series 2007	\$ 8,550,000
Series 2008	12,295,000
Series 2009	440,000
Total	<u>\$ 21,285,000</u>

In August 2016, the District issued \$4.115 million in Unlimited Tax Refunding Bonds to refund a portion of the District's Series 2007 and 2008 bonds. The proceeds of the refunding bonds net of the related debt service costs amounted to \$3.1 million and were deposited with an escrow agent to purchase direct obligations of the United States. As a result of the refunding, the District decreased its aggregate debt service payment to maturity by \$5.7 million and realized an economic gain (difference between the present value of debt service payments on the old debt and the new debt) of \$1 million. The accounting loss (\$223 thousand) along with \$496 thousand in premium will be deferred and amortized over the life of the refunding bonds.

In May 2017, the District issued \$9.39 million in Unlimited Tax Refunding Bonds to refund a portion of the District's Series 2008 and 2009 bonds. The proceeds of the refunding bonds net of the related debt service costs amounted to \$9.86 million and were deposited with an escrow agent to purchase direct obligations of the United States. As a result of the refunding, the District decreased its aggregate debt service payment to maturity by \$11.7 million and realized an economic gain (difference between the present value of debt service payments on the old debt and the new debt) of \$1.6 million. The accounting loss (\$210 thousand) along with \$500 thousand in premium will be deferred and amortized over the life of the refunding bonds.



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H. Prior Period Adjustment

During fiscal year 2018, the District adopted GASB Statement No. 75 for Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. With GASB 75, the District must assume their proportionate share of the Net OPEB liability of the Teacher Retirement System of Texas. Adoption of GASB 75 required a prior period adjustment to report the effect of GASB 75 retroactively. The prior period adjustment totaled \$ (12,662,250) which resulted in a restated beginning net position balance of \$ (3,515,223).

I. Risk Management

The District is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. During fiscal year 2018, the District purchased commercial insurance to cover general liabilities. There were no significant reductions in coverage in the past fiscal year and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

J. Pension Plan

1. Plan Description

The District participates in a cost-sharing multiple-employer defined benefit pension that has a special funding situation. The plan is administered by the Teacher Retirement System of Texas (TRS). It is a defined benefit pension plan established and administered in accordance with the Texas Constitution, Article XVI, Section 67, and Texas Government Code, Title 8, Subtitle C. The pension trust fund is a qualified pension trust under section 401(a) of the Internal Revenue Code. The Texas Legislature establishes benefits and contribution rates within the guidelines of the Texas Constitution. The pension's Board of Trustees does not have the authority to establish or amend benefit terms.

All employees of public, state-supported educational institutions in Texas who are employed for one-half or more of the standard work load and who are not exempted from membership under Texas Government Code, Title 8, Section 822.002 are covered by the system.

2. Pension Plan Fiduciary Net Position

Detail information about the Teacher Retirement System's fiduciary net position is available in a separately-issued Annual Financial Report that includes financial statements and required supplementary information. That report may be obtained on the Internet at <https://www.trs.state.tx.us/about/documents/cafr.pdf#CAFR>; by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698; or by calling (512) 542-6592.

3. Benefits Provided

TRS provides service and disability retirement, as well as death and survivor benefits, to eligible employees (and their beneficiaries) of public and higher education in Texas. The pension formula is calculated using 2.3 percent (multiplier) times the average of the five highest annual creditable salaries times years of credited service to arrive at the annual standard annuity except for members who are grandfathered, the three highest annual salaries are used. The normal service retirement is at age 65 with 5 years of credited service or when the sum of the member's age and years of credited service equals 80 or more years. Early retirement is at age 55 with 5 years of service credit or earlier than 55 with 30 years of service credit. There are additional provisions for early retirement if the sum of the member's age and years of service credit total at least 80, but the member is less than age 60 or 62 depending on date of employment, or if the member was grandfathered in under a previous rule. There are no automatic post-employment benefit changes; including automatic COLAs. Ad hoc post-employment benefit changes, including ad hoc COLAs, can be granted by the Texas Legislature as noted in the Plan description in (1.) above.

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4. Contributions

Contribution requirements are established or amended pursuant to Article 16, section 67 of the Texas Constitution which requires the Texas legislature to establish a member contribution rate of not less than 6% of the member's annual compensation and a state contribution rate of not less than 6% and not more than 10% of the aggregate annual compensation paid to members of the system during the fiscal year. Texas Government Code section 821.006 prohibits benefit improvements, if as a result of the particular action, the time required to amortize TRS' unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action.

Employee contribution rates are set in state statute, Texas Government Code 825.402. Senate Bill 1458 of the 83rd Texas Legislature amended Texas Government Code 825.402 for member contributions and established employee contribution rates for fiscal years 2014 through 2017. The 84th Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2016 and 2017.

	<b>Contribution Rates</b>	
	2017	2018
Member	7.7%	7.7%
Non-Employer Contributing Entity (NECE - State)	6.8%	6.8%
Employers	6.8%	6.8%
District's 2018 Employer Contributions	\$ 322,485	
District's 2018 Member Contributions	\$ 938,275	
NECE 2017 On-Behalf Contributions to District	\$ 667,088	

Contributors to the plan include members, employers and the State of Texas as the only non-employer contributing entity. The State is the employer for senior colleges, medical schools and state agencies including TRS. In each respective role, the State contributes to the plan in accordance with state statutes and the General Appropriations Act (GAA).

As the non-employer contributing entity for public education and junior colleges, the State of Texas contributes to the retirement system an amount equal to the current employer contribution rate times the aggregate annual compensation of all participating members of the pension trust fund during that fiscal year reduced by the amounts described below which are paid by the employers. Employers (public school, junior college, other entities or the State of Texas as the employer for senior universities and medical schools) are required to pay the employer contribution rate in the following instances:

- On the portion of the member's salary that exceeds the statutory minimum for members entitled to the statutory minimum under Section 21.402 of the Texas Education Code.
- During a new member's first 90 days of employment.
- When any part or all of an employee's salary is paid by federal funding sources, a privately sponsored source, from non-educational and general, or local funds.
- When the employing district is a public junior college or junior college district, the employer shall contribute to the retirement system an amount equal to 50% of the state contribution rate for certain instructional or administrative employees; and 100% of the state contribution rate for all other employees.

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In addition to the employer contributions listed above, there are two additional surcharges an employer is subject to:

- When employing a retiree of the Teacher Retirement System the employer shall pay both the member contribution and the state contribution as an employment after retirement surcharge.
- When a school district or charter school does not contribute to the Federal Old-Age, Survivors and Disability Insurance (OASDI) Program for certain employees, they must contribute 1.5% of the state contribution rate for certain instructional or administrative employees; and 100% of the state contribution rate for all other employees.

5. Actuarial Assumptions

The total pension liability in the August 31, 2017 actuarial evaluation was determined using the following actuarial assumptions:

**THIS TABLE IS DIFFERENT IN THE TRS CAFR**

Valuation Date	August 31, 2017
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Market Value
Single Discount Rate	8%
Long-term expected Investment Rate of Return	8%
Inflation	2.5%
Salary Increases including inflation	3.5% to 9.5%
Payroll Growth Rate	2.5%
Benefit Changes during the year	None
Ad hoc post-employment benefit changes	None

The actuarial methods and assumptions are based primarily on a study of actual experience for the four year period ending August 31, 2014 and adopted on September 24, 2015.

6. Discount Rate

The discount rate used to measure the total pension liability was 8%. There was no change in the discount rate since the previous year. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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The long-term rate of return on pension plan investments is 8%. The long-term expected rate of return on pension plan investments was determined using a building block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the Systems target asset allocation as of August 31, 2017 are summarized below:

<b>Teacher Retirement System of Texas</b>			
<b>Asset Allocation and Long-Term Expected Real Rate of Return</b>			
<b>As of August 31, 2017</b>			
<b>Asset Class</b>	<b>Target Allocation*</b>	<b>Long-term Expected Geometric Real Rate of Return</b>	<b>Expected Contribution to Long-term Portfolio Returns **</b>
<b>Global Equity</b>			
U.S.	18%	4.6%	1.0%
Non-U.S. Developed	13%	5.1%	0.8%
Emerging Markets	9%	5.9%	0.7%
Directional Hedge Funds	4%	3.2%	0.1%
Private Equity	13%	7.0%	1.1%
<b>Stable Value</b>			
U.S. Treasuries	11%	0.7%	0.1%
Absolute Return	0%	1.8%	0.0%
Stable Value Hedge Funds	4%	3.0%	0.1%
Cash	1%	-0.2%	0.0%
<b>Real Return</b>			
Global Inflation Linked Bonds	3%	0.9%	0.0%
Real Assets	16%	5.1%	1.1%
Energy & Natural Resources	3%	6.6%	0.2%
Commodities	0%	1.2%	0.0%
<b>Risk Parity</b>			
Risk Parity	5%	6.7%	0.3%
Inflation Expectation			2.2%
Alpha			1.0%
<b>Total</b>	<b>100%</b>		<b>8.7%</b>

\* Target allocations are based on the FY2014 policy model. Infrastructure was moved from Real Assets to Energy and Natural Resources in FY2017, but the reallocation does not affect the long term expected geometric real rate of return or expected contribution to long-term portfolio returns.  
\*\* The expected contribution to Returns incorporates the volatility drag resulting from the conversion between Arithmetic and Geometric mean returns.

7. Discount Rate Sensitivity Analysis

The following schedule shows the impact of the Net Pension Liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (8%) in measuring the Net Pension Liability.

	1% Decrease in Discount Rate 7%	Discount Rate 8%	1% Increase in Discount Rate 9%
District's proportionate share of the net pension liability	\$ 5,045,718	\$ 2,993,066	\$ 1,283,900

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8. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2018, the District reported a liability of \$2,993,066 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District were as follows:

District's proportionate share of the collective net pension liability	\$ 2,993,066
State's proportionate share that is associated with District	<u>6,521,824</u>
Total	<u>\$ 9,514,890</u>

The net pension liability was measured as of August 31, 2017 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions to the pension plan relative to the contributions of all employers to the plan for the period September 1, 2016 through August 31, 2017.

At August 31, 2017 the employer's proportion of the collective net pension liability was 0.0093608%. which was an increase (decrease) of -0.0006289% from its proportion measured as of August 31, 2016.

**Changes Since the Prior Actuarial Valuation - There were no changes to the actuarial assumptions of other inputs that affected measurement of the total pension liability since the prior measurement period:**

There were no changes of benefit terms that affected measurement of the total pension liability during the measurement period.

For the year ended August 31, 2018, the District recognized pension expense of \$497,459 and revenue of \$497,459 for support provided by the State.

At June 30, 2018, the District reported its proportionate share of the TRS' deferred outflows of resources and deferred inflows of resources related to pensions from the following sources: (The amounts below will be the cumulative layers from the current and prior years combined)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 43,790	\$ 161,412
Changes in actuarial assumptions	136,339	78,051
Difference between projected and actual investment earnings	--	218,128
Changes in proportion and difference between the District's contributions and the proportionate share of contributions	908,595	189,004
Contributions paid to TRS subsequent to the measurement date [to be calculated by employer]	<u>272,340</u>	<u>--</u>
Total	<u>\$ 1,361,064</u>	<u>\$ 646,595</u>

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The net amounts of the District's balances of deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30	Pension Expense Amount
2019	\$ 97,086
2020	\$ 288,141
2021	\$ 82,405
2022	\$ 17,094
2023	\$ (15,184)
Thereafter	\$ (27,414)

**K. Defined Other Post-Employment Benefit Plans**

**1. Plan Description**

The District participates in the Texas Public School Retired Employees Group Insurance Program (TRS-Care). It is a multiple-employer, cost-sharing defined Other Post-Employment Benefit (OPEB) plan that has a special funding situation. The plan is administered through a trust by the Teacher Retirement System of Texas (TRS) Board of Trustees. It is established and administered in accordance with the Texas Insurance Code, Chapter 1575.

**2. OPEB Plan Fiduciary Net Position**

Detail information about the TRS-Care's fiduciary net position is available in the separately-issued TRS Comprehensive Annual Financial Report that includes financial statements and required supplementary information. That report may be obtained on the Internet at <http://www.trs.state.tx.us/about/documents/cafr.pdf#CAFR>; by writing to TRS at 1000 Red River Street, Austin, TX 78701-2698; or by calling (512) 542-6592.

Components of the net OPEB liability of the TRS-Care plan as of August 31, 2017 are as follows:

<u>Net OPEB Liability:</u>	<u>Total</u>
Total OPEB liability	\$ 43,885,784,621
Less: plan fiduciary net position	<u>399,535,986</u>
Net OPEB liability	<u>\$ 43,486,248,635</u>
Net position as a percentage of total OPEB liability	0.91%

**3. Benefits Provided**

TRS-Care provides a basic health insurance coverage (TRS-Care 1), at no cost to all retirees from public schools, charter schools, regional education service centers and other educational districts who are members of the TRS pension plan. Optional dependent coverage is available for an additional fee.

Eligible retirees and their dependents not enrolled in Medicare may pay premiums to participate in one of two optional insurance plans with more comprehensive benefits (TRS-Care 2 and TRS-Care 3). Eligible retirees and dependents enrolled in Medicare may elect to participate in one of two Medicare health plans for an additional fee. To qualify for TRS-Care coverage, a retiree must have at least 10 years of service credit in the TRS pension system. The Board of Trustees is granted the authority to establish basic and optional group insurance coverage for participants as well as to amend benefit terms as needed under Chapter 1575.052. There are no automatic post-employment benefit changes, including automatic COLAs.

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The premium rates for the optional health insurance are based on years of service of the member. The schedule below shows the monthly rates for the average retiree with Medicare Parts A&B coverage, with 20 to 29 years of service for the basic plan and the two optional plans:

Monthly TRS-Care Plan Premium Rates Effective September 1, 2016 - December 31, 2017			
	TRS-Care 1 Basic Plan	TRS-Care 2 Optional Plan	TRS-Care 3 Optional Plan
Retiree*	\$ --	\$ 70	\$ 100
Retiree and Spouse	20	175	255
Retiree* and Children	41	132	182
Retiree and Family	61	237	337
Surviving Children Only	28	62	82

\* or surviving spouse

4. Contributions

Contribution rates for the TRS-Care plan are established in state statute by the Texas Legislature, and there is no continuing obligation to provide benefits beyond each fiscal year. The TRS-Care plan is currently funded on a pay-as-you-go basis and is subject to change based on available funding. Funding for TRS-Care is provided by retiree premium contributions and contributions from the State, active employees and school districts based upon public school district payroll. The TRS board of trustees does not have the authority to set or amend contribution rates.

Texas Insurance Code, section 1575.202 establishes the state's contribution rate which is 1.0% of the employee's salary. Section 1575.203 establishes the active employee's rate which is .65% of pay. Section 1575.204 establishes an employer contribution rate of not less than 0.25 percent or not more than 0.75 percent of the salary of each active employee of the public. The actual employer contribution rate is prescribed by the Legislature in the General Appropriations Act. The following table shows contributions to the TRS-Care plan by type of contributor.

Contribution Rates		
	2017	2018
Active Employee	0.65%	0.65%
Non-Employer Contributing Entity (NECE) - State	1.00%	1.25%
Employers	0.55%	0.75%
Federal/Private Funding Remitted by Employers	1.00%	1.25%
Current fiscal year District contributions		\$ 104,175
Current fiscal year Member contributions		\$ 79,206
2017 measurement year NECE contributions	\$ 110,814	

In addition to the employer contributions listed above, there is an additional surcharge all TRS employers are subject to, regardless of whether they participate in the TRS-Care OPEB program. When employers hire a TRS retiree, they are required to pay to TRS-Care a monthly surcharge of \$535 per retiree.

TRS-Care received supplemental appropriations from the State of Texas as the NECE in the amount of \$15.6 million in fiscal year 2017 and \$182.6 million in fiscal year 2018.

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5. Actuarial Assumptions

The total OPEB liability in the August 31, 2017 actuarial valuation was determined using the following actuarial assumptions:

The actuarial valuation of TRS-Care is similar to the actuarial valuations performed for the pension plan, except that the OPEB valuation is more complex. All of the demographic assumptions, including mortality, and most of the economic assumptions are identical to those adopted by the Board in 2015 and are based on the 2014 actuarial experience study of TRS.

The active mortality rates were based on 90 percent of the RP-2014 Employee Mortality Tables for males and females. The post-retirement mortality rates were based on the 2015 TRS of Texas Healthy Pensioner Mortality Tables.

The following assumptions and other inputs used for members of TRS-Care are identical to the assumptions used in the August 31, 2017 TRS pension actuarial valuation:

Rates of Mortality	General Inflation
Rates of Retirement	Wage Inflation
Rates of Termination	Expected Payroll Growth
Rates of Disability Incidence	

Additional Actuarial Methods and Assumptions:

Valuation Date	August 31, 2017
Actuarial Cost Method	Individual Entry Age Normal
Inflation	2.50%
Discount Rate *	3.42% *
Aging Factors	Based on plan specific experience
Expenses	Third-party administrative expenses related to the delivery of health care benefits are included in the age-adjusted claims costs.
Payroll Growth Rate	2.50%
Projected Salary Increases **	3.50% to 9.50% **
Healthcare Trend Rates ***	4.50% to 12.00% ***
Election Rates	Normal Retirement: 70% participation prior to age 65 and 75% participation after age 65
Ad Hoc Post-Employment Benefit Changes	None

\*Source: Fixed income municipal bonds with 20 years to maturity that include only federal tax-exempt municipal bonds as reported in Fidelity Index's "20-year Municipal GO AA Index" as of August 31, 2017.

\*\*Includes inflation at 2.50%

\*\*\*Initial trend rates are 7.00% for non-Medicare retirees; 10.00% for Medicare retirees and 12.00% for prescriptions for all retirees. Initial trend rates decrease to an ultimate trend rate of 4.50% over a period of 10 years.

6. Discount Rate

A single discount rate of 3.42% was used to measure the total OPEB liability. There was a change of 0.44% in the discount rate since the previous year. Because the plan is essentially a "pay-as-you-go" plan, the single discount rate is equal to the prevailing municipal bond rate. The projection of cash flows used to determine the discount rate assumed that contributions from active members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions,



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the OPEB plan's fiduciary net position was projected not to be able to make all future benefit payments of current plan members. Therefore, the municipal bond rate was applied to all periods of projected benefit payments to determine the total OPEB liability. The source of the municipal bond rate was fixed-income municipal bonds with 20 years to maturity that include only federally tax-exempt municipal bonds as reported in Fidelity Index's "20-year Municipal GO AA Index" as of August 31, 2017.

<b>Teacher Retirement System of Texas</b>			
<b>Asset Allocation and Long-Term Expected Real Rate of Return</b>			
<b>As of August 31, 2017</b>			
<b>Asset Class</b>	<b>Target Allocation*</b>	<b>Long-term Expected Geometric Real Rate of Return</b>	<b>Expected Contribution to Long-term Portfolio Returns **</b>
<b>Global Equity</b>			
U.S.	18%	4.6%	1.0%
Non-U.S. Developed	13%	5.1%	0.8%
Emerging Markets	9%	5.9%	0.7%
Directional Hedge Funds	4%	3.2%	0.1%
Private Equity	13%	7.0%	1.1%
<b>Stable Value</b>			
U.S. Treasuries	11%	0.7%	0.1%
Absolute Return	0%	1.8%	0.0%
Stable Value Hedge Funds	4%	3.0%	0.1%
Cash	1%	-0.2%	0.0%
<b>Real Return</b>			
Global Inflation Linked Bonds	3%	0.9%	0.0%
Real Assets	16%	5.1%	1.1%
Energy & Natural Resources	3%	6.6%	0.2%
Commodities	0%	1.2%	0.0%
<b>Risk Parity</b>			
Risk Parity	5%	6.7%	0.3%
Inflation Expectation			2.2%
Alpha			1.0%
<b>Total</b>	<b>100%</b>		<b>8.7%</b>

\* Target allocations are based on the FY2014 policy model. Infrastructure was moved from Real Assets to Energy and Natural Resources in FY2017, but the reallocation does not affect the long term expected geometric real rate of return or expected contribution to long-term portfolio returns.  
\*\* The expected contribution to Returns incorporates the volatility drag resulting from the conversion between Arithmetic and Geometric mean returns.

7. Discount Rate Sensitivity Analysis

The following schedule shows the impact on the net OPEB liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used in measuring the net OPEB liability.

	1% Decrease in Discount Rate (2.42%)	Current Single Discount Rate (3.42%)	1% Increase in Discount Rate (4.42%)
District's proportionate share of net OPEB liability	\$ 8,513,305	\$ 7,213,148	\$ 6,168,115

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8. Healthcare Cost Trend Rates Sensitivity Analysis

The following presents the net OPEB liability of the plan using the assumed healthcare cost trend rate, as well as what the net OPEB liability would be if it were calculated using a trend rate that is 1% less than and 1% greater than the assumed healthcare cost trend rate:

	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
District's proportionate share of net OPEB liability	\$ 6,005,666	\$ 7,213,148	\$ 8,797,516

9. OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs

At June 30, 2018, the District reported a liability of \$7,213,148 for its proportionate share of the TRS's net OPEB liability. This liability reflects a reduction for State OPEB support provided to the District. The amount recognized by the District as its proportionate share of the net OPEB liability, the related State support, and the total portion of the net OPEB liability that was associated with the District were as follows:

District's proportionate share of the collective net OPEB liability	\$ 7,213,148
State's proportionate share that is associated with the District	<u>\$ 9,268,863</u>
<b>Total</b>	<b><u>\$ 16,482,011</u></b>

The net OPEB liability was measured as of August 31, 2017 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The District's proportion of the net OPEB liability was based on the District's contributions to their OPEB plan relative to the contributions of all employers to the plan for the period September 1, 2016 through August 31, 2017.

At August 31, 2017 the District's proportion of the collective net OPEB liability was 0.0165872.

10. Changes Since the Prior Actuarial Valuation.

The following were changes to the actuarial assumptions or other inputs that affected the measurement of the total OPEB liability since the prior measurement period:

- a. Significant plan changes were adopted during the fiscal year ending August 31, 2017. Effective January 1, 2018, only one health plan option will exist (instead of three), and all retirees will be required to contribute monthly premiums for coverage. The health plan changes triggered changes to several of the assumptions, including participation rates, retirement rates, and spousal participation rates.
- b. The August 31, 2016 valuation had assumed that the savings related to the Medicare Part D reimbursements would phase out by 2022. This assumption was removed for the August 31, 2017 valuation. Although there is uncertainty regarding these federal subsidies, the new assumption better reflects the current substantive plan. This change was unrelated to the plan amendment and its impact was included as an assumption change in the reconciliation of the total OPEB liability. This change significantly lowered the OPEB liability.
- c. The discount rate changed from 2.98% as of August 31, 2016 to 3.42% as of August 31, 2017. This change lowered total OPEB liability.

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The Affordable Care Act includes a 40% excise tax on high-cost health plans known as the "Cadillac tax." In this valuation the impact of this tax has been calculated as a portion of the trend assumption. Assumptions and methods used to determine the impact of the Cadillac Tax include:

- a. 2018 thresholds of \$850/\$2,292 were indexed annually by 2.50%.
- b. Premium data submitted was not adjusted for permissible exclusions to the Cadillac Tax.
- c. There were no special adjustments to the dollar limit other than those permissible for non-Medicare retirees over 55.

Results indicate that the value of the excise tax would be reasonably represented by a 25 basis-point addition to the long-term trend rate assumption.

Future actuarial measurements may differ significantly from the current measurements due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements; and changes in plan provision or applicable law.

There were no changes of benefit terms that affected measurement of the total OPEB liability during the measurement period.

For the year ended August 31, 2018, the District recognized OPEB expense of \$(3,101,608) and revenue of \$(3,101,608) for support provided by the State.

At June 30, 2018, the District reported its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to other post-employment benefits from the following sources:

	Deferred Outflow of Resources	Deferred Inflow of Resources
Differences between expected and actual economic experience	\$ --	\$ 150,580
Changes in actuarial assumptions	--	2,866,693
Differences between projected and actual investment earnings	1,096	--
Changes in proportion and difference between the District's contributions and the proportionate share of contributions	33	--
Contributions paid to TRS subsequent to the measurement date	90,767	
	<u>\$ 91,896</u>	<u>3,017,273</u>

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The net amounts of the District's balances of deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended August 31,	Amount
2019	\$ (397,983)
2020	\$ (397,983)
2021	\$ (397,983)
2022	\$ (397,983)
2023	\$ (398,257)
Thereafter	\$ (1,025,955)

L. Employee Health Care Coverage

During the current fiscal year, employees of the District were covered by a statewide health insurance plan, TRS Active Care. The District paid premiums of \$225 per month per employee to the Plan. Employees, at their option, authorized payroll withholdings to pay premiums for dependents. The Teacher Retirement System of Texas (TRS) manages TRS Active Care. Administration is provided by Aetna.

The latest financial information on TRS Active Care is available from TRS (see note on pension plan).

M. Commitments and Contingencies

1. Contingencies

The District participates in grant programs which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectibility of any related receivable may be impaired. In the opinion of the District, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying basic financial statements for such contingencies.

2. Litigation

No reportable litigation was pending against the District at June 30, 2018.

N. Shared Services Arrangements

Shared Services Arrangement - Fiscal Agent

The District is the fiscal agent for a Shared Services Arrangement ("SSA") which provides special education services to the member districts listed below. All services are provided by the fiscal agent. The member districts provide the funds to the fiscal agent. According to guidance provided in TEA's Resource Guide, the District has accounted for the fiscal agent's activities of the SSA in a special revenue fund and will be accounted for using Model 3 in the SSA section of the Resource Guide. Expenditures of the SSA are summarized below:

<u>Member Districts</u>	<u>Expenditures</u>
Hardin-Jefferson	\$ 293,459
Hamshire Fannett	278,931
Total	\$ <u>572,390</u>

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*FOR THE YEAR ENDED JUNE 30, 2018*

O. Disaster Recovery

The District received \$1,261,620 in revenue from FEMA after Hurricane Ike. The funds were allocated to the District to reimburse costs from the storm. The Emergency Management Division (EMD) under the Texas Department of Public Safety (TDPS) has to date completed all audits of the seven major project worksheets that were written from this disaster. The auditor disagreed with the federal grant writers on the application of the deductible. The state contracted auditor has recommended to FEMA that it should de-obligate some of the funds that the District received. The EMD under the TDPS has advised the District that they reworked the grants to ensure that the District should be able to retain all the funds received from FEMA for IKE.

It is the District's opinion that the likelihood of any reimbursements warrants no actual liability at this time; however, the District's Trustees have committed \$717,380 in fund balance for this potential reimbursement.

P. Subsequent Event

Subsequent to year end but before the date of these financial statements, the District issued refunding bonds in the amount of \$8,310,000. The proceeds of this issue were used to refund \$8,515,000 in outstanding Series 2009 bonds. This resulted in cash flow savings to the District in the amount of \$6.8 million.

### *Required Supplementary Information*

Required supplementary information includes financial information and disclosures required by the Governmental Accounting Standards Board but not considered a part of the basic financial statements.

**HARDIN-JEFFERSON INDEPENDENT SCHOOL DISTRICT**  
**GENERAL FUND**  
**BUDGETARY COMPARISON SCHEDULE**  
**FOR THE YEAR ENDED JUNE 30, 2018**

**EXHIBIT G-1**  
Page 1 of 2

Data Control Codes		1		2	3	Variance with Final Budget Positive (Negative)
		Budgeted Amounts		Final	Actual	
		Original				
<b>REVENUES:</b>						
5700	Local and Intermediate Sources	\$ 7,857,808	\$ 7,902,111	\$ 10,997,681	\$ 3,095,570	
5800	State Program Revenues	8,758,691	8,758,691	8,924,273	165,582	
5900	Federal Program Revenues	111,250	111,250	3,921,342	3,810,092	
5020	Total Revenues	<u>16,727,749</u>	<u>16,772,052</u>	<u>23,843,296</u>	<u>7,071,244</u>	
<b>EXPENDITURES:</b>						
Current:						
Instruction & Instructional Related Services:						
0011	Instruction	9,159,656	9,186,226	9,065,153	121,073	
0012	Instructional Resources and Media Services	147,022	152,136	150,768	1,368	
0013	Curriculum and Staff Development	214,729	33,917	26,757	7,160	
	Total Instruction & Instr. Related Services	<u>9,521,407</u>	<u>9,372,278</u>	<u>9,242,678</u>	<u>129,600</u>	
Instructional and School Leadership:						
0021	Instructional Leadership	1,000	146,065	141,171	4,894	
0023	School Leadership	937,460	1,028,310	1,024,543	3,767	
	Total Instructional & School Leadership	<u>938,460</u>	<u>1,174,375</u>	<u>1,165,714</u>	<u>8,661</u>	
Support Services - Student (Pupil):						
0031	Guidance, Counseling and Evaluation Services	363,688	361,708	348,694	13,014	
0033	Health Services	99,144	99,144	94,159	4,985	
0034	Student (Pupil) Transportation	1,187,215	1,198,075	1,197,959	116	
0035	Food Services	8,000	8,000	7,390	610	
0036	Cocurricular/Extracurricular Activities	686,915	729,901	682,055	47,846	
	Total Support Services - Student (Pupil)	<u>2,344,962</u>	<u>2,396,827</u>	<u>2,330,257</u>	<u>66,570</u>	
Administrative Support Services:						
0041	General Administration	766,218	794,916	780,954	13,962	
	Total Administrative Support Services	<u>766,218</u>	<u>794,916</u>	<u>780,954</u>	<u>13,962</u>	
Support Services - Nonstudent Based:						
0051	Plant Maintenance and Operations	2,395,271	2,859,271	2,810,525	48,746	
0052	Security and Monitoring Services	88,799	89,799	88,956	843	
0053	Data Processing Services	212,718	210,720	200,268	10,452	
	Total Support Services - Nonstudent Based	<u>2,696,788</u>	<u>3,159,790</u>	<u>3,099,749</u>	<u>60,041</u>	
Debt Service:						
0071	Principal on Long-Term Debt	107,470	102,475	102,475	--	
0072	Interest on Long-Term Debt	--	22,245	22,237	8	
0073	Bond Issuance Costs and Fees	--	--	2,250	(2,250)	
	Total Debt Service	<u>107,470</u>	<u>124,720</u>	<u>126,962</u>	<u>(2,242)</u>	
Capital Outlay:						
0081	Capital Outlay	--	4,000,000	3,845,099	154,901	
	Total Capital Outlay	<u>--</u>	<u>4,000,000</u>	<u>3,845,099</u>	<u>154,901</u>	

**HARDIN-JEFFERSON INDEPENDENT SCHOOL DISTRICT**  
**GENERAL FUND**  
**BUDGETARY COMPARISON SCHEDULE**  
**FOR THE YEAR ENDED JUNE 30, 2018**

**EXHIBIT G-1**  
Page 2 of 2

Data Control Codes	1	2	3	Variance with Final Budget Positive (Negative)	
	Budgeted Amounts		Actual		
	Original	Final			
Intergovernmental Charges:					
0093	Payments to Fiscal Agent/Member Dist.-SSA	326,000	315,000	293,459	21,541
0095	Payments to Juvenile Justice Alternative				
0095	Education Programs	11,000	11,649	11,349	300
0099	Other Intergovernmental Charges	247,000	238,000	234,388	3,612
	Total Intergovernmental Charges	584,000	564,649	539,196	25,453
6030	Total Expenditures	16,959,305	21,587,555	21,130,609	456,946
1100	Excess (Deficiency) of Revenues Over (Under)				
1100	Expenditures	(231,556)	(4,815,503)	2,712,687	7,528,190
Other Financing Sources (Uses):					
7915	Transfers In	--	--	239,811	239,811
7080	Total Other Financing Sources and (Uses)	--	--	239,811	239,811
1200	Net Change in Fund Balance	(231,556)	(4,815,503)	2,952,498	7,768,001
0100	Fund Balance - Beginning	4,955,740	4,955,740	4,955,740	--
3000	Fund Balance - Ending	\$ 4,724,184	\$ 140,237	\$ 7,908,238	\$ 7,768,001



**HARDIN-JEFFERSON INDEPENDENT SCHOOL DISTRICT**  
*SCHEDULE OF THE DISTRICT'S PROPORTIONATE  
 SHARE OF THE NET PENSION LIABILITY  
 TEACHER RETIREMENT SYSTEM OF TEXAS  
 LAST TEN FISCAL YEARS \**

	Measurement Year Ended August 31,				
	2017	2016	2015	2014	2013
District's proportion of the net pension liability (asset)	0.0093608%	0.0099897%	0.0102275%	0.0021233%	--
District's proportionate share of the net pension liability (asset)	\$ 2,993,066	\$ 3,774,958	\$ 3,615,285	\$ 1,314,761	\$ --
State's proportionate share of the net pension liability (asset) associated with the District	6,521,824	7,991,312	7,621,686	6,770,880	--
Total	<u>\$ 9,514,890</u>	<u>\$ 11,766,270</u>	<u>\$ 11,236,971</u>	<u>\$ 8,085,641</u>	<u>\$ --</u>
District's covered-employee payroll	\$ 11,872,338	\$ 11,924,213	\$ 11,499,882	\$ 11,118,545	\$ --
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	25.21%	31.66%	31.44%	11.82%	--
Plan fiduciary net position as a percentage of the total pension liability	82.17%	78.00%	78.43%	83.25%	--

\* This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, this schedule provides the information only for those years for which information is available.

EXHIBIT G-2

Measurement Year Ended August 31,				
2012	2011	2010	2009	2008
--	--	--	--	--
\$ --	\$ --	\$ --	\$ --	\$ --
--	--	--	--	--
<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>
\$ --	\$ --	\$ --	\$ --	\$ --
--	--	--	--	--
--	--	--	--	--

**HARDIN-JEFFERSON INDEPENDENT SCHOOL DISTRICT**  
*SCHEDULE OF DISTRICT CONTRIBUTIONS*  
*TEACHER RETIREMENT SYSTEM OF TEXAS*  
*LAST TEN FISCAL YEARS \**

	Fiscal Year				
	2017	2017	2016	2015	2014
Contractually required contribution	\$ 322,485	\$ 309,508	\$ 317,558	\$ 276,870	\$ --
Contributions in relation to the contractually required contribution	(322,485)	(309,508)	(317,558)	(276,870)	--
Contribution deficiency (excess)	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>
District's covered-employee payroll	\$ 12,185,386	\$ 11,893,403	\$ 11,843,038	\$ 11,467,710	--
Contributions as a percentage of covered-employee payroll	2.65%	2.60%	2.68%	2.41%	--

\* This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, this schedule provides the information for those years for which information is available.

EXHIBIT G-3

		Fiscal Year					
		2013	2012	2011	2010	2009	
\$	--	\$	--	\$	--	\$	--
	--		--		--		--
\$	<u>--</u>	\$	<u>--</u>	\$	<u>--</u>	\$	<u>--</u>
\$	--	\$	--	\$	--	\$	--
	--		--		--		--

**HARDIN-JEFFERSON INDEPENDENT SCHOOL DISTRICT**  
*SCHEDULE OF THE DISTRICT'S PROPORTIONATE  
 SHARE OF THE NET OPEB LIABILITY  
 TEACHERS RETIREMENT SYSTEM OF TEXAS  
 LAST TEN FISCAL YEARS \**

	Measurement Year Ended August 31,				
	2017	2016	2015	2014	2013
District's proportion of the collective net OPEB liability	0.016587%	--	--	--	--
District's proportionate share of the collective net OPEB liability	\$ 7,213,148	\$ --	\$ --	\$ --	\$ --
State proportionate share of the collective net OPEB liability associated with the District	\$ 9,268,863	\$ 1	\$ 1	\$ --	\$ --
Total	<u>\$ 16,482,011</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>
District's covered-employee payroll	\$ 11,872,338	\$ --	\$ --	\$ --	\$ --
District's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	60.76%	--	--	--	--
Plan fiduciary net position as a percentage of the total OPEB liability	0.910%	--	--	--	--

\* This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, this schedule provides the information only for those years for which information is available.

EXHIBIT G-4

Measurement Year Ended August 31,				
2012	2011	2010	2009	2008
--	--	--	--	--
\$ --	\$ --	\$ --	\$ --	\$ --
\$ --	\$ --	\$ --	\$ --	\$ --
\$ --	\$ --	\$ --	\$ --	\$ --
\$ --	\$ --	\$ --	\$ --	\$ --
--	--	--	--	--
--	--	--	--	--

**HARDIN-JEFFERSON INDEPENDENT SCHOOL DISTRICT**  
*SCHEDULE OF THE DISTRICT'S OPEB CONTRIBUTIONS*  
*TEACHER RETIREMENT SYSTEM OF TEXAS*  
*LAST TEN FISCAL YEARS \**

	Fiscal Year Ended				
	2018	2017	2016	2015	2014
Statutorily or contractually required District contribution	\$ 104,175	\$ --	\$ --	\$ --	\$ --
Contributions recognized by OPEB in relation to statutorily or contractually required contribution	(104,175)	--	--	--	--
Contribution deficiency (excess)	<u>\$ 208,350</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>
District's covered-employee payroll	\$ 12,185,485	\$ --	\$ --	\$ --	\$ --
Contributions as a percentage of covered-employee payroll	0.85%	--	--	--	--

\* This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, this schedule provides the information for those years for which information is available.

EXHIBIT G-5

Fiscal Year Ended				
2013	2012	2011	2010	2009
\$ --	\$ --	\$ --	\$ --	\$ --
--	--	--	--	--
<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>
\$ --	\$ --	\$ --	\$ --	\$ --
--	--	--	--	--



## **HARDIN-JEFFERSON INDEPENDENT SCHOOL DISTRICT**

*NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED JUNE 30, 2018*

### Budget

The official budget was prepared for adoption for all Governmental Fund Types. The budget was prepared in accordance with accounting practices generally accepted in the United States of America. The following procedures are followed in establishing the budgetary data.:

- a. Prior to June 20 of the preceding fiscal year, the District prepares a budget for the next succeeding fiscal year. The operating budget includes proposed expenditures and the means of financing them.
- b. A meeting of the Board is then called for the purpose of adopting the proposed budget after ten days' public notice of the meeting has been given.
- c. Prior to the beginning of the fiscal year, the budget is legally enacted through passage of a resolution by the Board.

Once a budget is approved, it can be amended at function and fund level only by approval of a majority of the members of the Board. Amendments are presented to the Board at its regular meetings.

Each amendment must have Board approval. Such amendments are made before the fact, are reflected in the official minutes of the Board and are not made after fiscal year end as required by law.

Each amendment is controlled by the budget coordinator at the revenue and expenditure function/object level. Budgeted amounts are as amended by the Board. All budget appropriations lapse at year end.

Encumbrances for goods or purchased services are documented by purchase orders or contracts. Under Texas law, appropriations lapse at year end and encumbrances outstanding at that time are to be either cancelled or appropriately provided for in the subsequent year's budget. There were no end-of-year outstanding encumbrances that were provided for in the subsequent year's budget.

### Defined Benefit Pension Plan

#### *Changes of benefit terms*

There were no changes of benefit terms that affected measurement of the total pension liability during the measurement period.

#### *Changes of assumptions*

There were no changes of assumptions or other inputs that affected measurement of the total pension liability during the measurement period.

### *Other Supplementary Information*

This section includes financial information and disclosures not required by the Governmental Accounting Standards Board and not considered a part of the basic financial statements. It may, however, include information which is required by other entities.

**HARDIN-JEFFERSON INDEPENDENT SCHOOL DISTRICT**

*SCHEDULE OF DELINQUENT TAXES RECEIVABLE*

*FOR THE YEAR ENDED JUNE 30, 2018*

Year Ended June 30	Tax Rates		3 Assessed/Appraised Value For School Tax Purposes
	1 Maintenance	2 Debt Service	
2009 and Prior Years	\$ Various	\$ Various	\$ Various
2010	1.04	.28	948,495,718
2011	1.04	.235	1,015,280,784
2012	1.04	.245	919,133,696
2013	1.04	.23	928,220,056
2014	1.04	.26	805,809,952
2015	1.04	.28	806,914,394
2016	1.04	.28	791,045,682
2017	1.04	.33	749,102,773
2018 (School Year Under Audit)	1.04	.30	834,187,036

1000 Totals

9000 - Portion of Row 1000 for Taxes Paid into Tax Increment Zone Under Chapter 311, Tax Code

EXHIBIT J-1

10 Beginning Balance 7/1/17	20 Current Year's Total Levy	31 Maintenance Collections	32 Debt Service Collections	40 Entire Year's Adjustments	50 Ending Balance 6/30/18
\$ 566,039	\$ --	\$ 11,317	\$ 3,381	\$ (24,510)	\$ 526,831
104,356	--	3,437	925	(941)	99,053
115,956	--	4,189	946	(910)	109,912
166,398	--	31,491	7,419	(31,474)	96,014
203,942	--	8,530	1,886	707	194,233
130,100	--	14,077	3,519	280	112,784
153,308	--	18,266	4,918	(1,495)	128,630
205,986	--	23,154	6,234	(8,204)	168,393
466,128	--	156,401	49,627	(20,510)	239,590
--	11,178,106	8,274,035	2,386,741	(40,230)	477,100
<u>\$ 2,112,214</u>	<u>\$ 11,178,106</u>	<u>\$ 8,544,896</u>	<u>\$ 2,465,597</u>	<u>\$ (127,287)</u>	<u>\$ 2,152,540</u>
\$ --	\$ --	\$ --	\$ --	\$ --	\$ --

**HARDIN-JEFFERSON INDEPENDENT SCHOOL DISTRICT**  
**NATIONAL SCHOOL BREAKFAST AND LUNCH PROGRAM**  
**BUDGETARY COMPARISON SCHEDULE**  
**FOR THE YEAR ENDED JUNE 30, 2018**

**EXHIBIT J-2**

Data Control Codes	1	2	3
	Budget	Actual	Variance Positive (Negative)
<b>REVENUES:</b>			
5700 <i>Local and Intermediate Sources</i>	\$ 450,000	\$ 378,965	\$ (71,035)
5800 <i>State Program Revenues</i>	4,907	4,721	(186)
5900 <i>Federal Program Revenues</i>	478,157	645,124	166,967
5020 <b>Total Revenues</b>	<u>933,064</u>	<u>1,028,810</u>	<u>95,746</u>
<b>EXPENDITURES:</b>			
Current:			
Support Services - Student (Pupil):			
0035 <i>Food Services</i>	813,251	851,203	(37,952)
<b>Total Support Services - Student (Pupil)</b>	<u>813,251</u>	<u>851,203</u>	<u>(37,952)</u>
Support Services - Nonstudent Based:			
0051 <i>Plant Maintenance and Operations</i>	38,000	23,335	14,665
<b>Total Support Services - Nonstudent Based</b>	<u>38,000</u>	<u>23,335</u>	<u>14,665</u>
6030 <b>Total Expenditures</b>	<u>851,251</u>	<u>874,538</u>	<u>(23,287)</u>
1100 <b>Excess (Deficiency) of Revenues Over (Under)</b>			
1100 <b>Expenditures</b>	81,813	154,272	72,459
1200 <b>Net Change in Fund Balance</b>	81,813	154,272	72,459
0100 <b>Fund Balance - Beginning</b>	265,596	265,596	--
3000 <b>Fund Balance - Ending</b>	<u>\$ 347,409</u>	<u>\$ 419,868</u>	<u>\$ 72,459</u>

**HARDIN-JEFFERSON INDEPENDENT SCHOOL DISTRICT**  
**DEBT SERVICE FUND**  
**BUDGETARY COMPARISON SCHEDULE**  
**FOR THE YEAR ENDED JUNE 30, 2018**

**EXHIBIT J-3**

Data Control Codes	1	2	3
	Budget	Actual	Variance Positive (Negative)
<b>REVENUES:</b>			
5700 <i>Local and Intermediate Sources</i>	\$ 2,416,000	\$ 2,509,567	\$ 93,567
5800 <i>State Program Revenues</i>	--	74,993	74,993
5020 <i>Total Revenues</i>	<u>2,416,000</u>	<u>2,584,560</u>	<u>168,560</u>
<b>EXPENDITURES:</b>			
Debt Service:			
0071 <i>Principal on Long-Term Debt</i>	690,509	690,508	1
0072 <i>Interest on Long-Term Debt</i>	1,807,104	1,807,105	(1)
0073 <i>Bond Issuance Costs and Fees</i>	5,000	1,400	3,600
<i>Total Debt Service</i>	<u>2,502,613</u>	<u>2,499,013</u>	<u>3,600</u>
6030 <i>Total Expenditures</i>	<u>2,502,613</u>	<u>2,499,013</u>	<u>3,600</u>
1100 <i>Excess (Deficiency) of Revenues Over (Under)</i>			
1100 <i>Expenditures</i>	(86,613)	85,547	172,160
1200 <i>Net Change in Fund Balance</i>	(86,613)	85,547	172,160
0100 <i>Fund Balance - Beginning</i>	2,495,899	2,495,899	--
3000 <i>Fund Balance - Ending</i>	<u>\$ 2,409,286</u>	<u>\$ 2,581,446</u>	<u>\$ 172,160</u>

**WEST, DAVIS & COMPANY, LLP**  
11824 Jollyville Road, Suite 100  
Austin, Texas 78759

Independent Auditors' Report on Internal Control over Financial Reporting and  
On Compliance and Other Matters Based on an Audit of Financial Statements  
Performed In Accordance With Government Auditing Standards

Board of Trustees  
Hardin-Jefferson Independent School District  
Sour Lake, Texas

Members of the Board of Trustees:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hardin-Jefferson Independent School District, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Hardin-Jefferson Independent School District's basic financial statements, and have issued our report thereon dated October 10, 2018.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Hardin-Jefferson Independent School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hardin-Jefferson Independent School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hardin-Jefferson Independent School District's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Hardin-Jefferson Independent School District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*West, Davis & Company*

West, Davis & Company, LLP  
Austin, Texas  
October 10, 2018



**WEST, DAVIS & COMPANY, LLP**  
11824 Jollyville Road, Suite 100  
Austin, Texas 78759

Independent Auditors' Report on Compliance for Each Major Program and on Internal  
Control Over Compliance Required by the Uniform Guidance

Board of Trustees  
Hardin-Jefferson Independent School District  
Sour Lake, Texas

Members of the Board of Trustees:

**Report on Compliance for Each Major Federal Program**

We have audited the Hardin-Jefferson Independent School District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on Hardin-Jefferson Independent School District's major federal program for the year ended June 30, 2018. Hardin-Jefferson Independent School District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of Hardin-Jefferson Independent School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Hardin-Jefferson Independent School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Hardin-Jefferson Independent School District's compliance.

***Opinion on Each Major Federal Program***

In our opinion, the Hardin-Jefferson Independent School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2018.

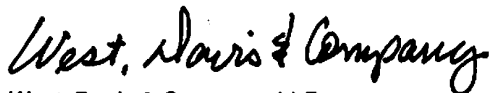
## Report on Internal Control Over Compliance

Management of the Hardin-Jefferson Independent School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Hardin-Jefferson Independent School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Hardin-Jefferson Independent School District's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we considered to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



West, Davis & Company, LLP  
Austin, Texas  
October 10, 2018

**HARDIN-JEFFERSON INDEPENDENT SCHOOL DISTRICT**  
*SCHEDULE OF FINDINGS AND QUESTIONED COSTS*  
*FOR THE YEAR ENDED JUNE 30, 2018*

A. Summary of Auditor's Results

1. Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

One or more material weaknesses identified?      Yes   X   No

One or more significant deficiencies identified that are not considered to be material weaknesses?      Yes   X   None Reported

Noncompliance material to financial statements noted?      Yes   X   No

2. Federal Awards

Internal control over major programs:

One or more material weaknesses identified?      Yes   X   No

One or more significant deficiencies identified that are not considered to be material weaknesses?      Yes   X   None Reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Title 2 U.S. Code of Federal Regulations (CFR) Part 200?      Yes   X   No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
10.553	CHILD NUTRITION CLUSTER
10.555	School Breakfast Program
10.555	National School Lunch Program (Non-cash)
	National School Lunch Program

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as low-risk auditee?   X   Yes      No

B. Financial Statement Findings

NONE

C. Federal Award Findings and Questioned Costs

NONE

**HARDIN-JEFFERSON INDEPENDENT SCHOOL DISTRICT**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2018**

**EXHIBIT K-1**

(1)	(2)	(2A)	(3)	(3)
Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass- Through Entity Identifying Number	Passed Through to Subrecipients	Federal Expenditures
<b>CHILD NUTRITION CLUSTER:</b>				
<u>U. S. Department of Agriculture</u>				
Passed Through State Department of Education:				
School Breakfast Program	10.553	71401801	\$ --	\$ 121,439
National School Lunch Program (Non-cash)	10.555	100-905	--	59,215
National School Lunch Program	10.555	71301701	--	464,470
Total CFDA Number 10.555			--	523,685
Total Passed Through State Department of Education			--	645,124
Total U. S. Department of Agriculture			--	645,124
Total Child Nutrition Cluster			--	645,124
<b>SPECIAL EDUCATION (IDEA) CLUSTER:</b>				
<u>U. S. Department of Education</u>				
Passed Through State Department of Education:				
SSA IDEA-B Formula	84.027A	176600011009056000	--	9,491
SSA IDEA-B Discretionary	84.027A	176600061009056000	--	55,716
SSA IDEA-B Formula	84.027A	186600011009056000	--	671,508
Total CFDA Number 84.027A			--	736,715
SSA IDEA-B Preschool	84.173A	176610011009056000	--	3,323
SSA IDEA-B Preschool	84.173A	186610011009056000	--	35,772
Total CFDA Number 84.173A			--	39,095
Total Passed Through State Department of Education			--	775,810
Total U. S. Department of Education			--	775,810
Total Special Education (IDEA) Cluster			--	775,810
<b>OTHER PROGRAMS:</b>				
<u>U. S. Department of Education</u>				
Passed Through State Department of Education:				
ESEA Title I Part A - Improving Basic Programs	84.010A	18610101100905	--	205,339
Career and Technical - Basic Grant	84.048A	17420006100905	--	1,787
Career and Technical - Basic Grant	84.048A	18420006100905	--	10,711
Total CFDA Number 84.048A			--	12,498
ESEA Title IV Part A-Safe & Drug-Free Schools & Communities Act	84.186A	100-905	--	8,902
ESEA Title II Part A - Teacher & Principal Training & Recruiting	84.367A	17694501100905	--	7,244
ESEA Title II Part A - Teacher & Principal Training & Recruiting	84.367A	18680101100905	--	38,189
Total CFDA Number 84.367A			--	45,433
Project SERV Hurricane Recovery Grant	84.938G	51071801	--	108
Total Passed Through State Department of Education			--	272,280
Total U. S. Department of Education			--	272,280
<u>Federal Emergency Management Administration</u>				
Direct Program:				
Disaster Grants-FEMA Hurricane Reimbursement	97.036	199-301f5-00	--	208,440
Total Federal Emergency Management Administration			--	208,440
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			\$ --	\$ 1,901,653

The accompanying notes are an integral part of this schedule.

**HARDIN-JEFFERSON INDEPENDENT SCHOOL DISTRICT**  
*NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS*  
*FOR THE YEAR ENDED JUNE 30, 2018*

Basis of Presentation

The accompanying schedule of expenditures of federal awards ("the Schedule") includes the federal grant activity of Hardin-Jefferson Independent School District. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200 *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Therefore, some amounts may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. These expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule, if any, represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

Hardin-Jefferson Independent School District has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

Reconciliation to Federal Program Revenue

Federal Expenditures Per Schedule of Expenditures of Federal Awards (SEFA)	\$	1,901,653
School Health and Related Services (SHARS)		446,510
Disaster Grants-Public Assistance (Presidentially Declared Disasters)		<u>3,770,338</u>
Federal Expenditures Per Statement of Revenues, Expenditures and Changes in Fund Balances (Exhibit C-2)	\$	<u><u>6,118,501</u></u>

Section IV "Other Information" of the Compliance Supplement for Disaster Grants-Public Assistance (Presidentially Declared Disasters) states that federal awards expended in the current year with the corresponding Project Worksheets approved in a subsequent year the District is to report those eligible expenditures in that subsequent year and not in the year originally spent.

**HARDIN-JEFFERSON INDEPENDENT SCHOOL DISTRICT**  
**SCHEDULE OF REQUIRED RESPONSES TO SELECTED SCHOOL FIRST INDICATORS**  
**AS OF JUNE 30, 2018**

Data Control Codes		Responses
SF2	Were there any disclosures in the Annual Financial Report and/or other sources of information concerning nonpayment of any terms of any debt agreement at fiscal year end?	No
SF4	Was there an unmodified opinion in the Annual Financial Report?	Yes
SF5	Did the Annual Financial Report disclose any instances of material weaknesses in internal controls over financial reporting and compliance for local, state or federal funds?	No
SF6	Was there any disclosure in the Annual Financial Report of material noncompliance for grants, contracts and laws related to local, state or federal funds?	No
SF7	Did the school district make timely payments to the Teachers Retirement System (TRS), Texas Workforce Commission (TWC), Internal Revenue Service (IRS), and other governmental agencies?	Yes
SF8	Did the school district <u>not</u> receive an adjusted repayment schedule for more than one fiscal year for an over allocation of Foundation School Program (FSP) funds as a result of a financial hardship?	Yes
SF10	What was the total accumulated accretion on capital appreciation bonds (CABs) included in government-wide financial statements at fiscal year-end?	\$ 454,706
SF11	Net Pension Assets (object 1920) at fiscal year-end.	\$ --
SF12	Net Pension Liabilities (object 2540) at fiscal year-end.	\$ 2,993,066
SF13	Pension Expense (object 6147) at fiscal year-end.	\$

In correspondence to all school administrators dated November 1, 2017, the TEA's Director of Financial Compliance stated "For 2017, and until further notice, no data should be entered in the field for data feed Schedule L-1 question SF13. If the AFR and data feed has been submitted no additional steps need to be taken."